Charles R. Drew University of Medicine and Science
Interim Report

Submitted to
The Accrediting Commission for Senior Colleges and Universities
Western Association of Schools and Colleges

Submitted by
David M. Carlisle, MD, PhD
President (CEO)
Acting Provost (CAO)

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March 1, 2013
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Excellence of performance will transcend artificial barriers created by man.

—Dr. Charles R. Drew

Mission: To conduct education, research, and clinical services in the context of community engagement to train health professionals who promote wellness, provide care with excellence and compassion, and transform the health of underserved communities.
Required Elements of a WASC Interim Report
http://wascsenior.org/resources/InterimReport

Cover Sheet. The cover sheet should specify that the document is an Interim Report and include the date of submission, the name and address of the institution, and the name of the person submitting the report.

I. List of Topics or Concerns (from issues identified in the Action Letter).

II. Institutional Context. The purpose of this section is to describe the nature of the institution so that the Interim Report Committee can understand the issues discussed in the report in context. Very briefly describe the institution's background; mission; history, including the founding date and year first accredited; geographic locations; and other pertinent information.

III. Statement on Report Preparation. Briefly describe in narrative form the process of report preparation, providing the names and titles of those involved. Because of the focused nature of an Interim Report, the widespread and comprehensive involvement of various institutional constituencies is not normally required. Faculty, administrative staff, and others should be involved as appropriate to the topics being addressed in the preparation of the report. Campus constituencies, such as faculty leadership and, where appropriate, the governing board (depending on the scope of the visit and the nature of the issues to be addressed in the report), should review the report before it is submitted to WASC, and such reviews should be indicated in this statement.

IV. Response to Issues Identified by the Commission. This main section of the Report should specifically address each issue identified by the Commission in its action letter as topics for the Interim Report. The visiting team report may provide additional context and background for the institution's understanding of issues. Identify each key issue, providing a full description of the issue, the actions taken by the institution that address this issue, and an analysis of the effectiveness of these actions to date. Have the actions taken been successful in resolving the problem? What is the evidence supporting progress? What further problems or issues remain? How will these issues be addressed, by whom, and under what timetable? How will the institution know when the issue has been fully addressed? Please include a timeline that outlines planned steps with milestones and expected outcomes for each issue.

V. Identification of Other Changes and Issues Currently Facing the Institution. This brief section should identify any other significant changes that have occurred or issues that have arisen at the institution (e.g., changes in key personnel, addition of major new programs, modifications in the governance structure, unanticipated challenges, or significant financial results) that are not otherwise described in the preceding section. This information will help the Interim Report Committee gain a clearer sense of the current status of the institution and understand the context in which the actions of the institution discussed in the previous section have taken place.
VI. Concluding Statement. Reflect on how the institutional responses to the issues raised by the Commission have had an impact upon the institution, setting forth follow-up steps to be taken.

VII. Required Documentation for all Interim Reports

- Current catalog(s)—CD-ROM or link to web-based catalog will suffice
- Summary Data Form—may be found at http://www.wascsenior.org/InterimReport
- Complete set of Required Data Exhibits to Support Proposals, Special Visit Reports & Interim Reports—may be found at http://www.wascsenior.org/InterimReport
- Most recent audited financial statements by an independent certified public accountant or, if a public institution, by the appropriate state agency; management letters, if any
- Organization charts or tables, both administrative and academic, highlighting any major changes since the last visit

VIII. Additional Documentation Required ONLY for Interim Reports with Financial Issues

- Financial statements for the current fiscal year including Budgeted and Actual Year-to-Date and Budgeted and Actual Last Year Totals
- Projected budgets for the upcoming three fiscal years, including the key assumptions for each set of projections.
I. LIST OF TOPICS OR CONCERNS

In its Action Letter of July 5, 2011 the Accrediting Commission for Senior Colleges and Universities of the Western Association of Schools and Colleges (WASC) granted full accreditation to Charles R. Drew University of Medicine and Science (Charles R. Drew University, University, or CDU). The WASC Commission also requested an Interim Report due March 1, 2013, a Special Visit in spring 2014, and scheduled a Comprehensive Review for CDU re-accreditation in 2018.

This 2013 Interim Report must address the financial status and challenges of the University, with special attention to persistent WASC concerns about issues of financial sustainability, planning, and management. Per the terms of the July 2011 WASC Commission Action Letter (page 5 of 6), and in addition to the summary data forms and other exhibits required of all interim reports, this CDU Interim Report includes:

A. A description of any changes since the June 2011 Commission meeting in personnel in the following financial positions, together with job descriptions and an explanation of changes: chief financial officer, controller, and assistant controller;

B. Audited financial statements and A-133 reports for fiscal years 2011 and 2012;

C. A detailed operating budget report showing FY2012 annual operating results, with focused commentary on any areas of revenue shortfalls or expense overruns, together with an explanation of steps taken to address them;

D. A detailed operating budget report showing FY2013 year-to-date (for as much of the year as can be reasonably prepared, but at least through January 2013), again reporting on any revenue or expense areas that are tracking unfavorably to budget, with explanations;

E. A description of any changes to the budget planning and monitoring process subsequent to the June 2011 Commission meeting, with explanations;

F. A summary and explanation of the financial results and planning in comparison to the Financial Sustainability Business Plan to date;

G. A description and explanation of the status of financial support from UCLA to CDU from June 2011 to the date of the Interim Report;

H. A description of cash management in response to the February 2011 Special Visit report, page 16 (i.e., a description of the internal monthly budget reporting process, focusing on any changes since the June 2011 Commission meeting);

I. A description of the plans for, and results of, fundraising since the time of the June 2011 Commission meeting.

The WASC Commission commended the progress of the University from 2009 to 2011 in stabilizing its financial foundations, yet cautioned that CDU was at risk of losing full accreditation if positive results and trends did not persist. The main narrative of this report (sections IV.A-I) will specifically address each of the above items, which in tandem demonstrate additional substantial progress toward ensuring the financial sustainability of the University. A narrative section on CDU budget projections for the next three fiscal years will also be provided (section IV.J), given the supplemental documentation required by WASC for all interim reports with financial issues.
II. INSTITUTIONAL CONTEXT

A. Mission

The mission of Charles R. Drew University of Medicine and Science is “to conduct education, research, and clinical services in the context of community engagement to train health professionals who promote wellness, provide care with excellence and compassion, and transform the health of underserved communities.” CDU carries out its mission through educating and training the next generation of health professionals in a unique environment. With a blend of pedagogy, research, community outreach, and clinical service, the university prepares students and graduates to address health disparities and the multiple needs of medically underserved populations. CDU provides students with a distinctive local clinical training experience as it is set in a culturally and socio-economically diverse community.

Student learning outcomes (SLOs) at all levels are fully aligned with the University mission. For example, University SLOs include:

- **Excellence in Clinical Service.** Students demonstrate excellence in their chosen field of study.
- **Academic and Social Research.** Students evaluate, use, and/or conduct research.
- **Compassion and Cultural Sensitivity.** Students demonstrate compassion and cultural sensitivity, with a special commitment to serving diverse and underserved populations.
- **Professionalism.** Students demonstrate responsible, empathetic, and ethical professional behavior.

B. Accreditation History

Charles R. Drew University was first accredited by WASC in 1995, following a process that began in 1986. In 2000, the Western Association of Schools and Colleges (WASC) Commission deferred reaffirmation of accreditation and scheduled a special visit for 2002. This visit led to reaffirmation and the scheduling of the Capacity and Preparatory Review (CPR) visit in spring 2007. The outcome of that visit resulted in the WASC Commission continuing CDU’s accreditation and proceeding with the Educational Effectiveness Review (EER) visit in spring 2009. Following the 2009 visit, the WASC Commission placed CDU on probation, requesting an interim report in March 2010 and scheduling a special visit for February 2011. In July 2011 the WASC Commission removed CDU from probation, granted full accreditation with a formal notice of concern, requested an Interim Report in March 2013, a Special Visit in spring 2014, and scheduled a Comprehensive Review for CDU re-accreditation in 2018.

C. University History

CDU is a private, nonprofit, nonsectarian, minority-serving medical and health sciences institution located in Los Angeles, California. CDU was founded in 1966 after the McCone Commission cited poor health status and diminished access to quality education, health care, employment, and safety as key factors in sparking the 1965 civil unrest in the local community. The needs of the community remain as great now as they were 50 years ago. CDU is the only designated minority-serving health-sciences university in a county with a population of more than 10 million residents, 70 percent of whom are from minority communities. The University serves as the only academic health sciences center for the local area’s 1.5 million residents.
CDU has earned designation as a minority-serving institution by the U.S. Office of Civil Rights, and its College of Medicine (COM) is recognized by the Department of Education (DOE) as a Historically Black Graduate Institution (HBGI as designated by Title III B). The University is a charter member of the Hispanic Serving Health Professions Schools, a national nonprofit dedicated to improving the health of Hispanic people through research initiatives, training opportunities, and academic development.

The University has made a significant contribution to the diversity of the nation’s healthcare workforce by graduating more than 400 physicians, 2,000 physician assistants, 2,500 physician specialists, and numerous other health professionals for over 40 years. More than 80 percent of these DREW/UCLA medical education program graduates are ethnic minorities, and empirical research on graduates from 1985-95 shows that more than 50 percent continue to work in medically disadvantaged areas ten years or more following graduation.¹ Many former fellows and faculty have become national leaders in education, government services, research institutions, and clinical enterprises.

D. Educational Programs

Charles R. Drew University educational opportunities range from pipeline (pre-college) to graduate training and continuing education programs. Academic programs are organized into three colleges or schools: the College of Science and Health (COSH), the College of Medicine (COM), and the Mervyn M. Dymally School of Nursing (SON). Pipeline programs include the Saturday Science Academy and Short-Term Education Program for Underrepresented Persons (STEP-UP). All three colleges/schools offer continuing education programs.

COSH offers an Urban Public Health master’s degree, a Life Sciences baccalaureate degree, and associate degrees in Health Information Technology and Radiologic Technology; a teach-out of a Pharmacy Technology associate degree program was completed recently. COM offers a joint Medicine doctoral degree though the University of California, Los Angeles (UCLA) medical education program, where students are enrolled in the first two years of basic science training at UCLA followed by two years of clinical training with CDU faculty; a teach-out of the Clinical Research master of science degree is nearing completion, with a few students finishing final graduation requirements. SON offers a Master of Science in Nursing with two tracks: an entry-level master (ELM) and family nurse practitioner (FNP) track.

E. Clinical Training Sites

The University has affiliation agreements with a wide variety of clinical training sites. The criteria of the School of Nursing (SON) for its clinical training sites include the quality of the learning experiences, ability to meet course and program objectives, and the presence of role models to assist in acquiring the skills of a generalist as a clinical nurse leader for the ELM track, and/or of an advanced practice nurse in a family nurse practitioner role for the FNP track. Current SON clinical sites across the greater Los Angeles region include the: Hemet Medical Center, Centinela Hospital Medical Center, Huntington Memorial Hospital, Cedars Sinai, Glendale Adventist Medical Center, Good Samaritan Hospital, St. Francis Medical Center, Veterans West Los Angeles Medical Center, and Pacific Clinic.

Similarly, the College of Science and Health maintains 66 clinical training sites across the greater Los Angeles metropolitan area for three of its academic programs: Health Information Technology, Radiographic Technology, and Urban Public Health. College of Medicine (COM) clinical clerkships for the third-year curriculum of the MD program include ambulatory adult medicine, family medicine, internal medicine, psychiatry, community pediatrics, surgery, and obstetrics-gynecology.

These COM clerkships are dispersed geographically throughout the greater Los Angeles area, including the University, the Kedren Mental Health Community Center in South Los Angeles, and multiple clinics, school-based student health centers, and comprehensive medical centers. COM students also have a longitudinal primary care experience, located in a community-based safety net facility at either the Hubert Humphrey Comprehensive Health Center in south Los Angeles, the homeless shelter clinic at the Union Rescue Mission in downtown Los Angeles, or the UMMA Community Clinic in South Los Angeles.

F. Student and Faculty Profiles

As of fall 2012 (10/15/2012) there were 622 students enrolled in CDU degree/certificate programs (119 in COM, 218 in COSH, and 285 in SON). Reflective of the mission of the University, the student body is highly diverse. The student demographic breakdown for race/ethnicity is 21.4 percent Asian, 34.1 percent Black, 14.5 percent Hispanic, 5.3 percent White, and 24.8 percent Other.

A notable strength of CDU is how closely faculty diversity mirrors student diversity. The faculty racial/ethnic composition is: 39 percent Asian, 35 percent Black, 5 percent Hispanic, 18 percent White, and 3 percent Other. There are 93 full-time and 53 part-time compensated faculty members (totaling 110.5 FTEs) and 113 non-compensated faculty members (as of 11/1/2012). Forty-four percent of the faculty (primarily clinical and community faculty) receive no remuneration directly from CDU for their service. This includes faculty who are community health leaders involved in student learning, participatory research, and other activities advancing the University mission.

G. Physical Resources

The main campus of Charles R. Drew University is on approximately 11 acres of land within the unincorporated area of Willowbrook in South Los Angeles. Currently, the university campus is composed of three permanent two-story buildings and several smaller facilities, including some temporary buildings. The W.M. Keck Foundation building houses COSH program offices, the Student Education and Services Center (SESC), and nine classrooms. The W. Montague Cobb Medical Education building houses university administrative offices, the Health Sciences Library, Learning Resource Center, Clinical Simulation Center, and COM administrative offices.

The new $50 million state-of-the-art Life Sciences Research and Nursing Education (LSRNE) building is a 63,922-square-foot, two-story building that houses the SON administrative offices, a clinical simulation center, three classrooms, a learning resource center, and research facilities. There are three learning centers across campus; two state-of-the-art clinical science simulation/education technology centers; and numerous resources and facilities supporting biomedical, clinical, and translational research for faculty and students.
H. Research Environment

Infrastructure that supports research at the University is especially significant to its graduate education focus on enhancing scholarly activity of both students and faculty educators. The CDU research enterprise, including its basic science activities, has undergone significant expansion over the past decade. According to The Center for Measuring University Performance, CDU ranked #44 among the top American private research universities in total federal research funding in 2009. The University currently receives more than $20 million in NIH funding annually and another $12 million from other sources to conduct basic and clinical research, primarily focused on health disparity issues. Research infrastructure is now coordinated within the Life Sciences Institute (LSI) and includes institutional funds and grants aligned with the requirements of clinical and translational research. The LSI is well positioned to play a significant role in the future of systems biology and medical research at the University, with support for new research discoveries through the work of teams focused on re-engineering clinical research into structured systems for improving patient outcomes.

I. Clinical Research Sites

Charles R. Drew University engages in clinical research primarily through patient recruitment via approximately 25 community and outpatient clinics. Participant recruitment occurs from outpatient settings, such as the MLK ambulatory clinics, the Hubert Humphrey Clinic (120,000 patient visits per year), and the To Help Everyone Clinic (T.H.E. Clinic), which receives approximately 20,000 patient visits per year, or through direct recruitment from within the community. CDU has worked closely with the Southside Coalition of Community Health Centers, which serves the South Los Angeles community and represents 8 Federally Qualified Health Centers with 36 clinical sites. In 2011, for example, the Southside Coalition members collectively cared for 151,566 patients and provided 520,793 visits. The UCLA health system (more than one million clinical visits and 80,000 inpatient visits per year) also provides sites for clinical trial recruitment. Investigators continue to have access to these and other smaller sites that have been part of the core clinical research-distributed network at CDU. Clinical research operations also provide a rich resource for CDU students completing a research thesis or project or community service requirements.

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III. STATEMENT ON REPORT PREPARATION

A special CDU WASC Team oversaw preparation of this interim report. The team was convened under the auspices of the provost in early August 2012 with faculty, student, and staff representation. The team is chaired by Dr. William Shay, who serves as the WASC Accreditation Liaison Officer (ALO) in his role as Assistant Provost of Academic Personnel and Administration. The members of the team include:

1. Dr. Victor Chaban, Associate Professor of Internal Medicine, Chair of the Academic Program Review Committee, Vice President of the Academic Senate.
2. Dr. Ronald Edelstein, Associate Professor of Family Medicine, Senior Associate Dean of Academic Affairs in the College of Medicine.
3. Dr. Sondos Islam, Associate Professor, Director of the Urban Public Health Program in the College of Science and Health.
4. Dr. Lisa Jones, Assistant Professor of Nursing, Assistant Dean in the School of Nursing.
5. Dr. Shirley Evers-Manly, Assistant Professor of Nursing, Associate Dean of Administration in the School of Nursing.
6. Ms. Shani Hunter, College of Science and Health student, President of the Charles R. Drew Student Government.
8. Ms. Anne Embree, Chief Budget and Planning Officer, Office of Finance.
9. Mr. James Main (ex officio), COO and Senior Vice President for Administration and Finance.
10. Mr. Richard Lindstrom, Director of the Office of Institutional Research and Effectiveness, Director of Title III Program, Instructor in the College of Medicine.
11. Ms. Espie Pasigan, Senior Executive Assistant, Office of Administration and Finance.
12. Dr. Rita Sawyer, Chief Student Services Officer, Director of Admissions.

ALO Dr. Shay was responsible for consolidation of section narratives and supporting evidence arrays into a master document, and he facilitated vetting of the draft report by various campus constituencies. Team member Mr. Richard Lindstrom provided material assistance for generic interim report data exhibits, notably IPEDS tables and other summary data forms (Exhibits.VII.B-C). Dr. Toni ELBoushi, the chief human resources officer of CDU, provided the requested job descriptions of finance personnel and required organization charts (see section IV.A and Exhibits IV.A and IV.E).

Given the focus of this interim report on the financial status and sustainability of the University, two other individuals prepared specific sections assigned by the COO to them as the responsible administrative officers. Mr. John Geraghty, the controller of the University, collaborated closely with team member Ms. Anne Embree; they prepared various financial analyses and attendant data exhibits (sections IV.B-H), and provided relevant audited financial statements, business plans, and supplemental exhibits on key financial ratios (Exhibit IV.D and Attachments). Ms. Angela Minniefield, the Vice President of Strategic Advancement and Development, prepared the section of the report concerning fundraising efforts and results since July 2011 (section IV.I).
Updates on progress in report preparation were routinely provided to Dr. David Carlisle in his roles as CEO and Acting Provost, to Mr. James Main as COO, and to their respective senior management executives, both academic and administrative. In early October 2012, ALO Dr. Shay presented an overview of the interim report deliverables and preparation process to a full faculty meeting of the academic senate. In late January 2013, a draft of the interim report was provided to the council of deans, the academic senate, and the faculty governing bodies of each college/school for review and feedback. The draft interim report was also vetted with the academic affairs and finance subcommittees of the CDU board of trustees, and ultimately with the full board of trustees in a special teleconference meeting in late February 2013.
IV. RESPONSE TO ISSUES IDENTIFIED BY THE COMMISSION

This main section of the interim report addresses in turn each of the nine items explicitly identified for special consideration by the WASC Commission in its Action Memo of July 2011 (page 5 of 6). Projected budgets of the University with key assumptions for the next three fiscal years are also presented, per WASC requirements for additional documentation in interim reports with financial issues.

A. A description of any changes since the June 2011 Commission meeting in personnel in the following financial positions, together with job descriptions and an explanation of changes: chief financial officer, controller, and assistant controller.

At the time of the WASC special visit of February 2011 and commission meeting of June 2011, the finance department of Charles R. Drew University was led by Ron Lau, Chief Finance Officer (CFO). CDU was searching for a new chief operating officer that would report directly to the president with responsibility for finance and other offices of central administration. In March 2012, CDU hired James Main, MA, as a new Senior Vice President for Administration and Finance & Chief Operating Officer (COO). Mr. Main has 35 years of experience in all facets of college and university administration. His former positions include Vice President for Administration and Finance at California State University, Monterey Bay; Vice President for Finance and Administration at Southern Oregon University; and Assistant Vice Chancellor for Business and Finance at the University of Nebraska – Lincoln (18 years).

In June of 2012, Mr. Main restructured the finance department in order to enhance and improve operational efficiency and quality assurance controls. The chief financial officer departed and the duties of the CFO have been divided since then between three positions: the COO, controller, and a chief budget and planning officer (CBPO). This restructuring included elimination of the CFO position and recruitment of Anne Embree, CPA, to the new position of CBPO. Ms. Embree has over 15 years of budget development and financial management experience in higher education, primarily at the University of Nebraska – Lincoln. Both the CBPO and the controller report directly to the COO.

The following table shows the status and occupants of the COO and finance personnel positions since the WASC special visit of February 2011, and their respective formal job descriptions on file in the office of human resources are enclosed as Exhibits IV.A.1-5, with the exception of the displaced CFO position.

<table>
<thead>
<tr>
<th>Position</th>
<th>February 2011</th>
<th>June 2011</th>
<th>March 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Operations Officer (COO)</td>
<td>consultant (1)</td>
<td>consultant (1)</td>
<td>James Main</td>
</tr>
<tr>
<td>Chief Financial Officer (CFO)</td>
<td>Ron Lau</td>
<td>Ron Lau</td>
<td>na (2)</td>
</tr>
<tr>
<td>Chief Budget and Planning Officer (CBPO)</td>
<td>na</td>
<td>na</td>
<td>Anne Embree (3)</td>
</tr>
<tr>
<td>Controller</td>
<td>John Geraghty</td>
<td>John Geraghty</td>
<td>John Geraghty</td>
</tr>
<tr>
<td>1st Assistant Controller</td>
<td>Mike Pichay</td>
<td>open (4)</td>
<td>Rick Craft</td>
</tr>
<tr>
<td>2nd Assistant Controller</td>
<td>na</td>
<td>na</td>
<td>Bruce Johnson (5)</td>
</tr>
</tbody>
</table>

(1) COO position was filled with an interim consultant until James Main was hired March 2012.
(2) CFO position was filled by Ron Lau until June 2012.
(3) Chief Budget and Planning Officer was a new position as part of restructuring in June 2012.
(4) 1st Assistant Controller Mike Pichay departed April 2011; Rick Craft was hired August 2011.
(5) 2nd Assistant Controller position was a new position as part of the restructuring in June 2012; the position was filled by Bruce Johnson this past January 7, 2013.

The replacement of consultants with full-time professional staff, and opening of a new position and recruitment for a finance officer with budget expertise (the CBPO), are especially consequential to the successful re-structuring and operational effectiveness of the office of finance.
B. Audited financial statements and A-133 reports for fiscal years 2011 and 2012.

Recruitment since the 2011 WASC commission meeting of a dedicated COO and new CBPO, and filling the open assistant controller positions, have proved instrumental in the efforts of the University to promote fiscal accountability, fiscal transparency, and fiscal responsibility. With new leadership and additional professional staff in the office of finance, the controller was able to focus in fiscal year 2012 on operational efficiency and compliance with internal controls, both as better business practice and in response to several external audit findings from fiscal year 2011. The University completed its financial statements for fiscal year 2012 on October 31, 2012; the A-133 and other audited financial reports (Attachments IV.B.1-2) were presented and accepted by the audit committee of the board of trustees on November 30, 2012, and by the full board in its meeting of December 3, 2012.

Continuous improvement in compliance with regulatory accounting standards since the peak of poor CDU performance in 2009 is evident in the following chart of conventional metrics:

<table>
<thead>
<tr>
<th>Year</th>
<th># of Findings</th>
<th>Months to Issue Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>2007</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>2008</td>
<td>12</td>
<td>6</td>
</tr>
<tr>
<td>2009</td>
<td>40</td>
<td>3 (Sept)</td>
</tr>
<tr>
<td>2010</td>
<td>30</td>
<td>12 (June)</td>
</tr>
<tr>
<td>2011</td>
<td>20</td>
<td>9 (Mar)</td>
</tr>
<tr>
<td>2012</td>
<td>0</td>
<td>6 (Dec)</td>
</tr>
</tbody>
</table>

As the recent history of CDU audit findings and audit completion rates and costs demonstrate, the University is progressively benefiting from implementation of financial management and quality assurance controls.

- The FY2012 audit has no (0) material weaknesses – first time with none since 2006.
- The FY2012 audit has six (6) significant deficiencies – lowest number since before 2006.
- CDU completed the FY2012 audit by October 31st (123 days) – earliest completion since prior to 2006. The FY2010 and FY2011 audits took 268 and 174 days, respectively, to complete.

Financial returns on investment in operational efficiency and compliance efforts are equally noteworthy in regard to the third-party cost of conducting those audits: these costs were cut almost 60% over the past four audit cycles, from more than $600,000 in 2009 to less than $250,000 in 2012. The University aims to completely eliminate audit findings and substantially reduce audit costs over the coming fiscal years, with sustained attention to all facets of fiscal management and quality assurance controls.
C. A detailed operating budget report showing FY2012 annual operating results, with focused commentary on any areas of revenue shortfalls or expense overruns, together with an explanation of steps taken to address them.

The following table provides line-item details on variances in the unrestricted fund budget in fiscal year 2012 (FY2012).

<table>
<thead>
<tr>
<th>CDU Statement of Activities (for Twelve Months ending 6/30/12)</th>
<th>Actual Unrestricted</th>
<th>Budget Unrestricted</th>
<th>Variance: Fav (Unfav) Unrestricted</th>
<th>% Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Tuition and fees, net</td>
<td>$11,002,054</td>
<td>$9,400,000</td>
<td>$1,602,054</td>
<td>17.0%</td>
</tr>
<tr>
<td>2 Federal / State grants and contracts</td>
<td>10,804,018</td>
<td>10,000,000</td>
<td>804,018</td>
<td>8.0%</td>
</tr>
<tr>
<td>3 Private gifts and contracts</td>
<td>965,556</td>
<td>500,000</td>
<td>465,556</td>
<td>93.1%</td>
</tr>
<tr>
<td>4 IDC</td>
<td>3,408,782</td>
<td>3,500,000</td>
<td>(1,218)</td>
<td>-2.6%</td>
</tr>
<tr>
<td>5 Apartment revenue</td>
<td>521,800</td>
<td>480,000</td>
<td>41,800</td>
<td>8.7%</td>
</tr>
<tr>
<td>6 All other revenue (for Debt Serv)</td>
<td>1,790,643</td>
<td>1,800,000</td>
<td>(9,357)</td>
<td>-0.5%</td>
</tr>
<tr>
<td>7 Sub-Total Revenue</td>
<td>28,492,853</td>
<td>25,680,000</td>
<td>2,812,853</td>
<td>11.0%</td>
</tr>
<tr>
<td>8 Investment income</td>
<td>63,030</td>
<td>0</td>
<td>63,030</td>
<td>**</td>
</tr>
<tr>
<td>9 Total Revenue</td>
<td>28,555,883</td>
<td>25,680,000</td>
<td>2,875,883</td>
<td>11.2%</td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 Academic Affairs</td>
<td>1,734,828</td>
<td>1,845,239</td>
<td>-100,411</td>
<td>6.0%</td>
</tr>
<tr>
<td>11 Administration &amp; Legal</td>
<td>4,417,026</td>
<td>3,153,733</td>
<td>(1,263,293)</td>
<td>-40.1%</td>
</tr>
<tr>
<td>12 Apartments</td>
<td>489,439</td>
<td>480,000</td>
<td>(9,439)</td>
<td>-2.0%</td>
</tr>
<tr>
<td>13 Academic Senate</td>
<td>98,202</td>
<td>95,960</td>
<td>(2,242)</td>
<td>-2.3%</td>
</tr>
<tr>
<td>14 Internal Audit &amp; Risk Mgt</td>
<td>623,635</td>
<td>767,225</td>
<td>143,590</td>
<td>18.7%</td>
</tr>
<tr>
<td>15 College of Medicine</td>
<td>2,375,035</td>
<td>3,085,216</td>
<td>710,181</td>
<td>23.0%</td>
</tr>
<tr>
<td>16 College of Sci. &amp; Health</td>
<td>2,252,921</td>
<td>2,369,365</td>
<td>116,443</td>
<td>4.9%</td>
</tr>
<tr>
<td>17 Depreciation</td>
<td>2,844,798</td>
<td>2,496,000</td>
<td>(348,798)</td>
<td>-14.0%</td>
</tr>
<tr>
<td>18 Development</td>
<td>64,828</td>
<td>151,875</td>
<td>87,047</td>
<td>57.3%</td>
</tr>
<tr>
<td>19 Net Income Effect Fringe Payable</td>
<td>(3,034,906)</td>
<td>-</td>
<td>3,034,906</td>
<td>**</td>
</tr>
<tr>
<td>20 Finance</td>
<td>2,577,653</td>
<td>2,213,802</td>
<td>(363,851)</td>
<td>-16.4%</td>
</tr>
<tr>
<td>21 LSRNE Building</td>
<td>1,849,988</td>
<td>1,800,000</td>
<td>(49,988)</td>
<td>-2.8%</td>
</tr>
<tr>
<td>22 President</td>
<td>1,297,505</td>
<td>1,723,103</td>
<td>425,599</td>
<td>24.7%</td>
</tr>
<tr>
<td>23 Research</td>
<td>2,510,371</td>
<td>2,090,371</td>
<td>(419,999)</td>
<td>-20.1%</td>
</tr>
<tr>
<td>24 SON</td>
<td>3,640,505</td>
<td>4,691,876</td>
<td>1,051,371</td>
<td>22.4%</td>
</tr>
<tr>
<td>25 Total Expense</td>
<td>23,741,828</td>
<td>26,963,765</td>
<td>3,221,937</td>
<td>11.9%</td>
</tr>
<tr>
<td>26 Subtotal (Change in Net Assets)</td>
<td>4,814,055</td>
<td>(1,283,765)</td>
<td>6,097,820</td>
<td>-475.0%</td>
</tr>
<tr>
<td>27 (Gain) Loss on Swap/MTM</td>
<td>3,941,232</td>
<td>-</td>
<td>(3,941,232)</td>
<td>**</td>
</tr>
<tr>
<td>28 Change in Net Assets</td>
<td>$872,823</td>
<td>$(1,283,765)</td>
<td>$2,156,588</td>
<td>-168.0%</td>
</tr>
</tbody>
</table>

The table below provides brief comments on substantial variances, whether net positive or negative, and notes strategies for mitigating negative variances and improving budget projections relative to positive variances. A fuller treatment of these budget-to-actual variances by line-item follows.
The Mervyn M. Dymally School of Nursing (SON) began in fall term 2010 with eighteen students, and grew dramatically over the course of the next two academic years. The FTE student headcounts for fall terms 2011 and 2012 were 229 and 282, respectively. This rapid growth far exceeded the budgeted FTE student headcount, and accounted for most of the favorable tuition/fee variance in FY2012. The budgeted FTE student headcount for the following fall term in 2012 was 232, and thus the full impact of both additional tuition/fee revenues and attendant expenses to meet the programmatic demands of higher student enrollments did not occur until the next fiscal year, which will be discussed below in the analysis of budget-to-actual variances for FY2013 (see section IV.D).
Administration and Legal

The net negative variance in administration and legal expenses is due primarily to unanticipated legal expenses for consulting and litigation services as well as settlement agreements. Relative to the FY2011 baseline, actual legal expense increased 283% in FY2012; from $420,118 to $1,608,469, respectively. With an allocation of $700,000 for legal expense in FY2012 versus actual costs of $1.6 million, the variance amount of $908,469 was 130% over budget. In addition to the direct costs of legal fees and lawsuit settlements, higher insurance premiums comprise a collateral financial consequence, of approximately $400,000 in FY2013 (this is due in particular to increased liability insurance premiums, which are based upon prior claims experience).

Reducing legal expenses is a priority of senior administration, through proactive training initiatives on relevant policy and early informal intervention efforts. In addition to assigning a chief student services officer to focus on prompt remediation of student concerns, the University recruited new human resource officers with professional expertise in employee relations and risk management. Senior administration is elaborating a new policy of zero tolerance for any behavior or practices that may put the institution at risk of litigation. Recruitment of in-house legal counsel is also in process, which eventually should cost CDU far less than current legal fees of contracted attorneys.

Depreciation

The FY2012 budget allocation for depreciation may appear low in comparison to prior-year actuals. However, FY2011 only included eight months of depreciation on the new Life Sciences Research/Nursing Education Building. Annualizing depreciation on the building would bring depreciation for FY2012 to approximately $2,800,000 as compared to a depreciation budget of approximately $2,500,000. There was also an un-budgeted increase in depreciation expense of approximately $110,000 due to re-opening a campus café. CDU wrote off the café equipment to impairment when the café closed in FY2010, and then reinstated the equipment when the café re-opened and rolled forward the depreciation when the impairment write off was reversed in FY2012. By explicitly linking known and expected depreciation schedules to the capital budget during the annual budget development process, such budget-to-actual variances should become marginal in future fiscal years.

Fringe Benefits

The fringe benefits clearing account would not normally impact the income statement. In FY2012, however, the fringe benefits clearing account generated a $3M positive effect to net income, due to a one-time reduction of the accrued payable on the balance sheet for a credit caused by over-recovery of fringe benefits in prior years.

In FY2009, the University contribution to employee retirement accounts was reduced to 1%, but the fringe recovery rate for both restricted and unrestricted funds was not lowered accordingly. At the close of FY2011 on June 30, 2011 an accrued payable for over-recovery of fringe benefits was added to the balance sheet and fringe recovery rates were adjusted accordingly. At the close of FY2012 on June 30, 2012 this accrued payable was reduced to recognize the current credit balance in the fringe benefit clearing account. The over-recovery balance is progressively decreasing, and budget contingencies in this area are being drafted for the coming fiscal-year to coincide with proposals under consideration by senior management and the board of trustees of the University to raise the percentage of contributions to employee retirement accounts. The management letter incorporated into the A-133 audited financial statements for FY2012 provides more information on these accounting processes (Attachment IV.B.2).
Research

Research expenditures from unrestricted funds, which represent the portion of sponsored research indirect costs that support research infrastructure, were overspent by approximately $500,000 in FY2012. These unrestricted funds were overspent on research faculty and staff salaries in particular. CDU is continuing to implement a more rigorous budget monitoring process in the current fiscal year, in part to more accurately encumber research personnel expenses. Furthermore, there are various under-utilized restricted funds available to displace unrestricted funding for research infrastructure.

SWAP Agreement

The most volatile budget factor for CDU on a real-time basis is the cost of interest payments for a SWAP agreement on external funding for the new Life Sciences Research/Nursing Education building (LSRNE). This financial instrument is a hedge vehicle, and was designed originally to protect the University against the prospect of rising interest rates on the LSRNE variable-rate mortgage. The SWAP agreement was signed in February of 2008 and based on $33 million in principal with an amortization schedule over 35 years. However, with dramatically declining interest rates over the past several years, CDU is now paying more per month to its SWAP parties than in mortgage interest payments, by a magnitude of 120%.

The SWAP agreement also comprises the greatest threat to the long-term financial sustainability of the University, for two primary reasons. First and foremost, the SWAP agreement is not tied to the mortgage note; even a complete buy out much less substantial draw down of the mortgage principal will not affect the terms of the SWAP payments. Second, benchmark interest rates for the SWAP agreement are expected to remain at historic lows, and thus CDU will continue to make substantial monthly payments to the SWAP parties for the foreseeable future.

In order to assess the magnitude of this threat, a systematic analysis of the terms and fiscal implications of the current SWAP agreement was presented in October 2012 to the finance sub-committees of the academic senate and board of trustees (Exhibit IV.C.1). Under the direction of the board of trustees, CDU is working with financial consultants to specify and assess the feasibility of options that would reduce if not eliminate the financial exposure of the University to its current SWAP agreement. Options may include:

1) Carry forward the current agreement for the time being and count on rising interest rates as macro-economic circumstances continue to improve—this would increase incentives on the current SWAP parties to re-negotiate terms as their financial risk rises;

2) Replace CDU debt holders with new creditors who preferably are locally based with stronger credit ratings—the current holders of both the mortgage note and SWAP agreement are facing their own fiscal challenges and they may be receptive to a buy-out offer from other financial institutions that would provide CDU with more favorable terms;

3) Secure the funding needed from philanthropic or other sources to buy out the SWAP agreement outright—as indicated in Exhibit IV.C.1, the total value of the 35-year agreement at prevailing benchmark interest rates is estimated at roughly $11 million.
D. A detailed operating budget report showing FY 2013 year-to-date (for as much of the year as can be reasonably prepared, but at least through January 2013), again reporting on any revenue or expense areas that are tracking unfavorably to budget, with explanations.

The following table provides line-item details on the mid-year variances of the unrestricted fund budget in the current fiscal year through January 2013.

<table>
<thead>
<tr>
<th>CDU Statement of Activities (for Seven Months ending 1/31/13)</th>
<th>Actual Unrestricted</th>
<th>Budget Unrestricted</th>
<th>Variance: Fav (Unfav)</th>
<th>% Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Tuition and fees, net</td>
<td>7,484,070</td>
<td>5,578,730</td>
<td>1,905,340</td>
<td>34.2%</td>
</tr>
<tr>
<td>2 Federal / State grants and contracts</td>
<td>5,770,353</td>
<td>5,510,000</td>
<td>(260,353)</td>
<td>4.7%</td>
</tr>
<tr>
<td>3 Private gifts and contracts</td>
<td>738,591</td>
<td>1,160,000</td>
<td>(421,409)</td>
<td>-36.3%</td>
</tr>
<tr>
<td>4 IDC</td>
<td>1,792,153</td>
<td>1,855,995</td>
<td>(63,842)</td>
<td>-3.4%</td>
</tr>
<tr>
<td>5 Apartment revenue</td>
<td>280,000</td>
<td>278,400</td>
<td>1,600</td>
<td>0.6%</td>
</tr>
<tr>
<td>6 All other revenue (Debt Serv)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>**</td>
</tr>
<tr>
<td>7 Sub-Total Revenue</td>
<td>16,065,167</td>
<td>14,383,125</td>
<td>1,682,042</td>
<td>11.7%</td>
</tr>
<tr>
<td>8 Investment income</td>
<td>196,953</td>
<td>0</td>
<td>196,953</td>
<td>**</td>
</tr>
<tr>
<td>9 Total Revenue</td>
<td>16,262,120</td>
<td>14,383,125</td>
<td>1,878,995</td>
<td>13.1%</td>
</tr>
<tr>
<td>Expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 Academic Affairs</td>
<td>382,998</td>
<td>455,444</td>
<td>72,446</td>
<td>15.9%</td>
</tr>
<tr>
<td>11 Administration &amp; Legal</td>
<td>3,609,197</td>
<td>3,052,947</td>
<td>(556,250)</td>
<td>-18.2%</td>
</tr>
<tr>
<td>12 Apartments</td>
<td>274,261</td>
<td>280,000</td>
<td>5,739</td>
<td>2.0%</td>
</tr>
<tr>
<td>13 Academic Senate</td>
<td>37,976</td>
<td>47,869</td>
<td>9,893</td>
<td>20.7%</td>
</tr>
<tr>
<td>14 Internal Audit &amp; Risk Mgt</td>
<td>473,669</td>
<td>653,197</td>
<td>179,528</td>
<td>27.5%</td>
</tr>
<tr>
<td>15 College of Medicine</td>
<td>1,253,611</td>
<td>1,442,236</td>
<td>188,625</td>
<td>13.1%</td>
</tr>
<tr>
<td>16 College of Science &amp; Health</td>
<td>1,286,138</td>
<td>1,103,549</td>
<td>(182,590)</td>
<td>-16.5%</td>
</tr>
<tr>
<td>17 Depreciation</td>
<td>1,570,005</td>
<td>1,552,166</td>
<td>(17,839)</td>
<td>-1.1%</td>
</tr>
<tr>
<td>18 Development</td>
<td>21,076</td>
<td>17,400</td>
<td>(3,676)</td>
<td>-21.1%</td>
</tr>
<tr>
<td>19 Finance</td>
<td>1,039,023</td>
<td>986,077</td>
<td>(52,946)</td>
<td>-5.4%</td>
</tr>
<tr>
<td>20 LSRNE Building</td>
<td>1,187,807</td>
<td>1,054,440</td>
<td>(133,367)</td>
<td>-12.6%</td>
</tr>
<tr>
<td>21 President</td>
<td>778,073</td>
<td>772,386</td>
<td>(5,687)</td>
<td>-0.7%</td>
</tr>
<tr>
<td>22 Research</td>
<td>887,302</td>
<td>639,266</td>
<td>(248,036)</td>
<td>-38.8%</td>
</tr>
<tr>
<td>23 School of Nursing</td>
<td>3,253,698</td>
<td>2,326,148</td>
<td>(927,550)</td>
<td>-39.9%</td>
</tr>
<tr>
<td>24 Total Expense</td>
<td>16,054,834</td>
<td>14,383,125</td>
<td>(1,671,709)</td>
<td>-11.6%</td>
</tr>
<tr>
<td>25 Subtotal (Change in Net Assets)</td>
<td>207,286</td>
<td>0</td>
<td>207,286</td>
<td>**</td>
</tr>
<tr>
<td>26 (Gain) Loss on Swap/MTM</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>27 Change in Net Assets</td>
<td>$207,286</td>
<td>$0</td>
<td>$207,286</td>
<td>**</td>
</tr>
</tbody>
</table>

Variance Explained

It is critical to first note that the budget-to-actual variances are similar in the past and current fiscal years, particularly in regard to the largest line-item surpluses and deficits. In regard to negative variances, the costs of legal fees and litigation, on-going unrestricted research overruns, as well as financial exposure of the University from its SWAP agreement, appear especially intractable in the short term. Conversely, the forecast of a relatively large deficit for the School of Nursing by the close of FY13 is more than offset by new revenue from its growing student enrollments.
The table below provides brief comments on substantial variances, whether net positive or negative, and notes on-going strategies for mitigating negative variances and improving budget projections relative to positive variances. A fuller treatment of these budget-to-actual variances by line-item follows.

<table>
<thead>
<tr>
<th>FY2013 ACTUAL TO BUDGET VARIANCE</th>
<th>COMMENTARY ON VARIANCE</th>
<th>STEPS TAKEN TO ADDRESS BUDGET VARIANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Favorable Variance in Tuition and Fees</td>
<td>Positive growth in students in CDU's School of Nursing</td>
<td>Managing growth and allocating resources to meet student needs</td>
</tr>
<tr>
<td>11 Unfavorable Variance in Legal Expense</td>
<td>CDU has experienced litigation from former students and former employees.</td>
<td>CDU has created a Chief Student Services Officer position to facilitate resolution of student complaints, and Employee Relations and Risk Manager positions in the HR Department; also recruiting in-house legal counsel.</td>
</tr>
<tr>
<td>16 Unfavorable Variance in College of Science and Health</td>
<td>Additional expenditures for adjunct faculty and educational supplies due to increased student enrollment.</td>
<td>Budget needs to be appropriately linked to the cost of educating students and adjusted due to actual enrollment.</td>
</tr>
<tr>
<td>20 Unfavorable variance in LSRNE Building costs</td>
<td>This represents interest costs paid on the variable interest rate bonds and on the variable interest rate SWAP agreement.</td>
<td>CDU has retained a consultant to analyze both its bond indenture and SWAP agreements, and to recommend options for how best to mitigate this financial risk.</td>
</tr>
<tr>
<td>22 Unfavorable Variance in Unrestricted Research</td>
<td>Faculty and support staff salaries/benefits are being paid above budget allocations.</td>
<td>Budget office is monitoring budget-to-actual variances monthly, and working with unit/project managers on action plans to manage any deficit spending.</td>
</tr>
<tr>
<td>23 School of Nursing Unfavorable Variance</td>
<td>Faculty and support staff salaries/benefits and educational supplies are above budget.</td>
<td>Budget needs to be appropriately linked to the cost of educating students and adjusted due to actual enrollment. Management is considering differential tuition changes to partially fund new costs of School of Nursing.</td>
</tr>
<tr>
<td>26 SWAP Mark-to-Market, Likely Favorable</td>
<td>An estimate of the change in the value of the SWAP contract in FY13 will be conducted toward year end, and based on current benchmark rates is expected to be favorable.</td>
<td>CDU has retained a consultant to analyze both its bond indenture and SWAP agreements, and to recommend options for how best to mitigate this financial risk.</td>
</tr>
</tbody>
</table>

**Tuition and Fees**

The chart below shows the rapid growth of student enrollment in the School of Nursing (SON) over the past few years. SON matriculated its first cohort of 18 students in fall term 2010 (FY2011), and given rolling admissions and executive-style program delivery, enrolled multiples of additional students during the course of that academic year; the annual student headcount of 266 for FY2011 net 3,100 student credit hours. By fall term 2011 the FTE student headcount in SON was 229, with annual headcount of 738 and 9,505 total student credits hours through FY2012; comparable figures for the current fiscal year are 282 student headcount as of fall term 2012, with annual headcount and total student credit hours projected at 847 and 10,970, respectively.
Budget assumptions for fiscal year 2013 included a projection of 232 FTE student headcount in SON as of fall 2012. Thus, the impact of the unanticipated program growth is evident in regard to both the tuition/fee revenue variance (line-item 1) and SON expenditure variance (line-item 23). The College of Science and Health also exceeded original budget projections for FTE student headcount and student credit hours, and therefore also has an unfavorable budget variance of 16.5% (line-item 16) due to increased expenditures for adjunct faculty and educational supplies. In total, FTE student headcount for fall 2012 was 50 above budget, and preliminary FTE student headcount for spring 2013 is almost 90 above budget; each increment of 50 nets roughly $1 million in tuition/fees.

**Administration and Legal**

As was the case in the prior fiscal year, the net negative variance in administration and legal expenses (line-item 11) is due primarily to unanticipated legal expenses for consulting and litigation services as well as settlement agreements. Based on actual legal costs through the seven months ending January 31, 2013, legal expenses in FY2013 are now projected at $971,150; compared to the budgeted amount of $524,320, the net unfavorable variance of $446,830 is an overrun of 85.2%. In absolute terms, this is less than half the net negative budget-to-actual variance of over $900,000 in legal expenses last fiscal year.
Reducing the total costs and more accurately encumbering expected legal expenses remain high priorities of CDU senior administration. The University is implementing proactive training initiatives and engaging in early informal intervention efforts by newly dedicated staff in the areas of student services, employee relations, and risk management. Recruitment of in-house legal counsel is in process, which eventually should cost CDU far less than current legal fees of contracted attorneys.

Research

Financial challenges in two other areas also remain relatively intractable, with continuing overruns in research expenditures from unrestricted funds (line-item 22) and in variable interest rate payments to the creditors of CDU for the Life Sciences Research/Nursing Education building (line-item 20).

As noted above in section IV.C on budget-to-actual variances for last fiscal year, research expenditures from unrestricted funds—which represent the portion of sponsored research indirect costs that support research infrastructure—were overspent by approximately $500,000 in FY2012. Research expenditures are overspent by approximately $230,000 for the seven months ended January 31, 2013, yet this budget overrun is projected to increase by only another $18,000 by the end of the current fiscal year. Relative to a year ago, CDU is making excellent progress in finding appropriate alternative funding for research faculty and support staff, even from restricted sponsored research sources. The University also expects to more accurately encumber unrestricted research expenses, such that this line item will remain within a marginal zone of variance in future budget cycles.

SWAP Agreement

For reasons discussed in detail above in section IV.C, the most volatile budget factor for CDU on a real-time basis is the cost of the variable interest rates for its SWAP agreement on external funding for the Life Sciences Research/Nursing Education building (LSRNE). Benchmark interest rates for the SWAP agreement appear likely to remain at historic lows for the foreseeable future. Therefore, the University will continue to aggressively explore options for re-negotiating or buying out the terms of the agreement with its current SWAP parties. CDU can count on the material support of a major benefactor in doing so. In early February of 2013, The California Endowment, a private statewide health foundation dedicated to expanding access and affordability of quality healthcare to underserved communities, reiterated its commitment to assisting CDU in alleviating this threat to the financial viability and long-term sustainability of the University.

In regard to budget matters more generally, and as will become increasingly clear in subsequent sections of this report, the re-structuring of the office of finance and its concerted efforts to implement rigorous financial monitoring and cash control systems throughout the University are relatively recent. These initiatives are only beginning to reap substantial returns in regard to operational efficiency and fiscal discipline. Indeed, the ability of CDU to close January 2013 financials within a two-week window in February to inform the present analysis is compelling evidence as such.
E. A description of any changes to the budget planning and monitoring process subsequent to the June 2011 Commission meeting, with explanations.

Charles R. Drew University has enacted a number of changes to its budget planning and monitoring process since the June 2011 Commission meeting. These changes are occurring at all levels of the institution, with a unifying emphasis on evidence-based decision making about resource allocation and utilization in both academic and administrative domains. There are two primary objectives of this new budget planning and monitoring process: (1) provide accurate, accessible, and timely financial information through an integrated data infrastructure; and (2) engage the full range of CDU stakeholders through a highly inclusive and iterative budget development and monitoring process.

Best business practices clearly require that program supervisors and account managers have reliable and timely financial reports to facilitate planning and management of financial resources. Therefore, the University has designated a Title III grant activity for supporting finance personnel responsible for improving the design and delivery of financial management reports. This grant allocation started October 1, 2012 and supports part of the salary of the chief budget and planning officer, costs of best business practice training for finance staff, salary for a project management application programmer, and the costs of additional financial and human resource software design and installation.

The University activity titled “Management Systems” is part of Title III, Part B, which is devoted to “Strengthening Historically Black Graduate Institutions,” with specific aims to strengthen financial management and fiscal stability of grantee institutions. In order to facilitate financial planning, budgeting, and monitoring, the CDU activity is designed to enhance core systems through integration of business processes and data analysis platforms (for personnel actions, procurement, budget, etc.). Under Title III “Legally Allowable Activity” funds for management systems development, the University can also acquire new equipment, including for software to strengthen management information systems. All of the operational objectives of the activity were approved by the Secretary of Education as part of the CDU Title III Comprehensive Development Plan of 2012-2014.

Specific projects to be undertaken include integrated personnel action processing; electronic timekeeping and reporting; web based, real time financial/payroll reporting; development and implementation of an executive dashboard; and implementation of a paperless workflow process for purchasing and invoices. The budget for these projects was deployed initially as part of the University budgeting process of 2012, with Title III activities integrated into overall institutional budget priorities. Fund expenditures are requested by an Activity Director, and approved by the Title III Program Director, who verifies that the expenses are allowable, allocable, and reasonable. The Program Director provides regular budget reports to the Activity Directors, and works closely with them to ensure that expenditures comply with relevant federal regulations and are documented appropriately.

Leveraging federal funding in this way is strong evidence of the commitment of CDU to ensure financial sustainability, by building professional expertise and reporting systems necessary to more effectively manage institutional resources. Since personnel costs comprise roughly 50% of University expenditures, CDU is focusing on position control. Position control is a best business practice for monitoring approval to hire and encumbering required personnel funding. Each funded position in the budget has a unique identifier, a position number that serves as a key for data flows and controls throughout electronic recruitment, human resource, payroll, and budget systems. Approval to create a new position or to re-fill a vacant position must go through the budget office for validation, then through the office of human resources for implementation of any search and hiring/promotion requirements, and eventually through payroll activation and budget encumbrance processes.
More broadly, the entire financial management infrastructure of the University is being upgraded to facilitate evidence-based budget planning and daily decision-making. CDU is committed to building integrated electronic business systems and to a culture of best business practices. Specific examples of the nature and impact of such structural and cultural enhancements include:

1. Financial reporting has moved from a system of manually-maintained office suite software to an integrative application platform with the aim of approximating an enterprise resource planning system (ERP). Notably, budget-to-actual reports can now be produced with relative ease by loading and linking the unrestricted budget of CDU into its quasi-ERP system.

2. Deployment of a quasi-ERP system also enables more efficient utilization of financial personnel. Time previously spent generating reports manually can now be dedicated to analyzing reports generated by the integrated system. The university also plans to load all restricted budgets into the system, so that Principal Investigators (PIs) of research projects will have comparable on-demand reporting for sponsored funds they oversee.

3. CDU has established a position control committee to oversee technical design and integration of the position control facet of its quasi-ERP system; this will provide more accurate and timely data for human resource officers and unit supervisors responsible for checking that a position has been through proper approval and financial encumbrance processes.

4. Other examples of best business practices at CDU in moving from manual to new automated financial planning and management systems, include:
   a. A personnel action form (PAF) that captures initial and changing terms of employment is being transitioned from paper records to an electronic system. Automated PAF entry and approvals with electronic workflow went on-line early in November 2012. System transactions may assign, remove, and/or otherwise change the terms of any funding source for both academic and administrative personnel. The approval routing can include the offices of budget, finance, human resources, and sponsored programs, depending upon the nature and scope of funding for the position.
   b. The office of sponsored programs is configuring and implementing a software package that will automate the process of submitting grant applications; the application will also capture standard sponsored research metrics and provide flexible reporting functions.
   c. A consultant has been retained to perform a procurement spend analysis and to analyze discount programs and software packages, so that the University can automate its procurement process and take advantage of discount programs for items such as office materials and scientific supplies.
   d. A “bolt on” software module is being configured for the quasi-ERP system to manage paid time off (PTO) of faculty and staff. This application will replace spreadsheets that have been manually maintained on an individual basis. When CDU fully deploys the integrated system’s business portal, all faculty and staff will have access to their own payroll data and to reports on paid and other leave usage and balances.
   e. The office of human resources is also leading design and implementation of an enterprise-level, web-based personnel recruitment application. This system will seamlessly displace a wide range of job description, posting, application, and hiring workflow processes previously conducted by hand with paper forms.
An integrated data infrastructure is fundamental to the new annual strategic planning and budgeting cycle of CDU, and is especially critical to the time-sensitive completion of the budget approval process for the next fiscal year. Such system consolidation enables the University to engage its full range of stakeholders, through a new highly inclusive and iterative budget planning and monitoring process, as illustrated in the chart below (also attached as Exhibit IV.E.1):

This annual cycle starts in the fall term, with revisiting of strategic planning milestones through all levels of the University, and then as of the new calendar year moves into the budget allocation phase of the process. Budget outcomes and constraints confirmed at the close of the fiscal year then feed back into revision of strategic and other plans, and so on as the cycle re-sets to begin anew. The focus of the University at the turn of the calendar year, on requests and approval of budget allocations for the following fiscal year, is an especially inclusive and time-sensitive process.

The chief budget and planning officer of CDU created and will oversee a new master calendar of iterative budget development that involves stakeholders across all levels of the University. The supervisors of both academic and administrative business units, and the leadership of faculty and staff governing bodies, have multiple opportunities to propose and revise options for budget allocations to their respective areas of interest. Requests for supplemental or new funding that depart substantially from baseline line-items of the current fiscal year will receive special scrutiny, and must be explicitly tied to specific goals of the strategic business plan. (See Exhibit IV.E.2 for details on the steps and timelines of each segment of this particular phase of the new annual planning cycle).
F. A summary and explanation of the financial results and planning in comparison to the Financial Sustainability Business Plan to date.

The University is substantially more stable financially at present than when the Financial Sustainability Business Plan was finalized (in December 2010) for the WASC special visit of 2011 (see Attachment IV.F.1). As is typical for all long-range planning by any complex organization, CDU has adjusted the core assumptions of its financial forecasts with changing fiscal circumstances. Thus, comparison with the 2010 business plan is instructive rather than definitive in regard to an appropriate baseline for the focused, iterative analytical process necessary to continuous improvement in financial fundamentals.

The financial challenges and risks of the University have been reduced dramatically since early 2011 in the unrestricted operating budget, especially in the area of daily cash flows and reserves; these reserves were supplemented by tuition/fees and other revenue surpluses. Details on significant variances relative to the 2010 forecasts, whether net negative or positive, include:

- The College of Medicine (COM) student headcount is fixed by the MD program operating agreement with the University of California Regents, at 116 students maximum. COM had 115 full-time students each year from FY2011 – FY2013, which is one below the cap and seven above the original forecast. (Exhibit IV.F.1)

- The College of Science and Health (COSH) unduplicated FTE student headcount for fall 2010 (FY2011) and fall 2011 (FY2012) exceeded the original forecasts by 12% and 10%, respectively, and fell short of expectations for fall 2012 (FY2013) by 5%. (Exhibit IV.F.1)

- The Mervyn M. Dymally School of Nursing (SON) unduplicated FTE student headcount for fall 2010 and fall 2011 fell short of expectations by 21% and 10%, respectively; however by fall 2012 (FY2013) the original forecasts were exceeded by 12%. (Exhibit IV.F.1)

- Total student credit hours (SCH) by fall 2012 were above budget and above the previous fall semester for both COSH and SON. (Exhibit IV.F.1)

- The net budget impact of these student headcount and credit hour variances, relative to the 2010 forecasts, was substantial additional revenue from tuition/fees in FY2011 and FY2012, and a modest deficit projected at $247,000 in FY2013. (Exhibit IV.F.2)

- Actual state and local grants and contract revenue in FY2011 was more than double the forecast of the 2010; however, the actuals were far lower than forecasts for the next two fiscal years, with a 30% negative variance in FY2012 of $4.1 million. (Exhibit IV.F.2)

- As of November 14, 2012, CDU had $10.4M in unrestricted cash and investments and $61.7M in endowments managed by the UCLA Foundation. (Exhibit IV.F.3)

- CDU has been in the “compliant zone” as measured by Department of Education financial ratios for FY2011 and FY2012. (Exhibit IV.F.4)

Student Metrics and Gross Tuition/Fees

The single largest variance in unduplicated student headcount and gross tuition revenue concerns assumptions made in 2010 about re-introduction of a Physician’s Assistant (PA) program in COSH at the level of a master’s degree. Per the original financial sustainability business plan a re-configured PA program was projected to matriculate students in FY2013.
However, CDU now expects that the PA program will not accept a cohort of 20 students until early calendar year 2015. Relative to the 2010 business plan, the PA program represents an unfavorable variance of at least 40 full-time students and an unfavorable gross tuition variance of $900,000.

Tuition revenue projections for FY2011 have an unfavorable student headcount variance, driven primarily by a slower than expected first year for SON, relative to the preliminary assumptions of the 2010 strategic business plan, which were drafted well before the actual start of the program. Conversely, SON exceeded original expectations by FY2012: both FY2012 actuals and the current forecast for FY2013 have resulted in a favorable variance overall relative to the original business sustainability plan, even after accounting for the unfavorable PA program variance as of FY2013.

Furthermore, the student headcount metric presented originally in the 2010 plan was for an unduplicated student headcount, with full-time and part-time students given the same weight for calculating total headcount. The University is now presenting FTE student headcount according to a common formula in higher education, often used historically for reporting to the Integrated Postsecondary Education Data System; this formula defines FTE student headcount as the sum of 1.0 FTE for each full-time student and .33 FTE for each part-time student. FTE student headcount is a better predictor of student credit hour (SCH) production than unduplicated student headcount, and by extension a better predictor of tuition revenue, since the actual extent of student enrollment is more accurately estimated.

The gross tuition variances are all unfavorable for FY2012 actuals and the FY2013 forecast, except for the MPH and Post-Baccalaureate programs in COSH. Given that virtually all SON students are full-time (such that the unduplicated student headcount equals FTE student headcount) and given that SON students produce almost 13 student credit hours on average per term (which is a robust figure for a graduate program), the only variable left is tuition rates. There has been no tuition rate increase at CDU since FY2009. Indeed, a tuition rate increase of 4% approved by the board of trustees for FY2013, was deferred due to the cost of a new mandatory student health insurance program that went into effect fall term 2012.

**Expense Variances and Net Assets**

FY2011 and FY2012 expenditures were higher than forecast in the 2010 business plan, with substantial improvement over time from a negative variance of $3.5 million in FY11 to an overrun of $407,000 in FY2012. However, FY2012 had a positive change in net assets of $872,823, which is 432% greater than the forecast of $201,850. Furthermore, the current projection is for a net $3 million favorable variance in total expenditures by the close of FY13, relative to the 2010 business plan. In regard to the net balance sheet for operating revenues less expenditures, FY2013 is now expected to break even in comparison to the forecasts of the 2010 business plan, which projected a surplus of $606,000.

As detailed above in section IV.D, the University now projects a $207,286 surplus relative to the revised budget for FY2013. Despite substantial differentials on a line-time basis, this compares quite favorably to the original forecasts of the 2010 financial sustainability business plan.

The exception to these positive trends in financial outcomes over the past three fiscal years is due to the interest-rate SWAP agreement, the volatility of which poses significant implications for the long-term sustainability of CDU. Notably, FY2012 was $3.7 million favorable relative to the 2010 business plan before accounting for the non-operating loss of $3.9 million on the SWAP agreement mark-to-market valuation (see section IV.C); the 2010 plan did not factor this into account.
G. A description and explanation of the status of financial support from UCLA to CDU from June 2011 to the date of the Interim Report.

Charles R. Drew University receives substantial financial support from the University of California Regents via UCLA through three main avenues: (1) graduate medical education funding; (2) California state legislature Senate Bill 1026 (SB 1026); and (3) investment services from the UCLA Foundation for management of the CDU endowment. The funding provided by the UC Regents and SB 1026 supports the delivery of a medical education program that awards a joint MD degree with and under the auspices of the David Geffen School of Medicine at UCLA (DGSOM). The CDU-UC affiliation agreement was initiated in 1979 and last renewed in 2008 for 10 years, and the MD program is under review this calendar year for professional re-accreditation by the Liaison Committee on Medical Education (LCME). An LCME site visit was held the week of February 10, 2013, and the Dean of DGSOM informed the Dean of the College of Medicine at CDU that there were no concerns expressed by the LCME site visit team about the joint medical education program.

Students in the joint MD program receive a UCLA diploma based on recommendations of faculty at both the CDU College of Medicine and UCLA School of Medicine. The number of students enrolled in the CDU College of Medicine at any given time is capped at 116, in one of two tracks: (1) a base 4-year Medical Education Program with 24 students per class (4 cohorts total); and 2) a Prime Medical Education Program with an additional 4 students per class (5 cohorts total). Students in both programs complete their first two years of basic studies at UCLA and the next two years under direction of CDU faculty in a variety of affiliate clinical and research training sites. The Prime Program amounts to a five-year dual degree program to develop leaders in medicine who specialize in issues of healthcare policy, patient care, and research for underserved populations. This supplemental program leads to both an MD and a master’s degree in an area that complements the mission of CDU (options include a master’s degree in business administration, public health, or public policy).

Historically the University has received between $9 million and $11 million annually in support of its medical education programs, as indicated in the following table:

<table>
<thead>
<tr>
<th>Recent Funding from UC Regents</th>
<th>FY2010</th>
<th>FY2011</th>
<th>FY2012</th>
<th>FY2013 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Graduate Medical Education</td>
<td>$5,231.8</td>
<td>$6,287.2</td>
<td>$6,286.7</td>
<td></td>
</tr>
<tr>
<td>Senate Bill 1026</td>
<td>4,461.7</td>
<td>4,978.7</td>
<td>4,517.4</td>
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</tr>
<tr>
<td>Supplemental – LSRNE Building</td>
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<td>10,000.0</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$9,693.5</strong></td>
<td><strong>$21,265.9</strong></td>
<td><strong>$10,804.1</strong></td>
<td><strong>$9,500.0</strong></td>
</tr>
</tbody>
</table>

During FY2011 and FY2012, the base UC funds received were $11.3 and $10.8 million, respectively. In FY2011 CDU was also awarded a special one-time supplement of $10 million to reduce the principal of the note held on the Life Sciences/Nursing Education building. For the current fiscal year budget (FY2013), the University assumes a conservative amount of UC funding at $9.5 million; as is usually the case, the actual final allocation will be determined in March or April of 2013. In the meantime, CDU management continues to discuss the needs of the University with UCLA administration and the UC Regents. For example, on September 27, 2012, CDU President Carlisle and Senior VP Mr. Main met with UC officials in Oakland to discuss the current situation and plans for the future.
Management of the Charles R. Drew University endowment by the UCLA Foundation is another substantial avenue of support from the University of California system. This past fall 2012, the relatively new leadership of the UCLA Foundation presented the CDU Board of Trustees with a summary of its investment philosophy and performance. Preservation of an endowment corpus and absolute rather than relative performance through a diversified portfolio are primary tenets of their investment philosophy, and the performance of their endowment pool over the past ten years is on par (at a 7.5% rate of return) with a custom benchmark and a traditional 70/30 (stock-bond) portfolio (see Exhibit IV.G.1 for details).

As shown in the following chart, as of the close of the third quarter last calendar year (9/30/12), the $60 million endowment portfolio of CDU is primarily based in the UCLA Foundation general investment pool (92%), with the remaining share (8%) invested in money market funds.

![CDU - UCLA Endowment Investment](image)

The current corpus of almost $60 million in CDU funds under management by the UCLA Foundation is derived primarily from annual endowment contributions over the past 11 years (since 2002) from the National Institutes of Health (NIH). NIH is committed to allocating a total of $74 million to the CDU endowment, with $15 million in outstanding contributions due in three equal ($5 million) installments in each of the next three fiscal years (FY14-FY16). Per NIH mandate, the first $19 million is permanently restricted, while the balance of $55 million must remain in the corpus for a period of 20 years.

Payouts from returns on investments of the corpus may not cover any direct costs of sponsored research. However, akin to the indirect costs of federal grants, the endowment payouts may be allocated in support of academic infrastructure and other strategic initiatives of University, such as research and library facilities and faculty recruitment and retention. The most recent 4% payout from the endowment return, the terms of which are set by the board of trustees of CDU, was available for operational expenses as of October 1, 2012.
CDU remains cautiously optimistic about continuation of these critical sources of financial and investment services support, despite the recent budgetary challenges faced by the State of California and the University of California system in particular. Passage of Proposition 30 in the statewide 2012 California ballot is especially consequential in this regard. Deep spending cuts directed primarily at educational programs will not occur this fiscal year, with voter approval of roughly $6 billion annually in new taxes through 2018-19.

It is also crucial to mark the passing in October 2012 of Dr. Mervyn M. Dymally, a legendary leader and emissary for the University. He first served in the California Assembly from 1962 to 1966, became the first black state senator in 1966, subsequently the first and only black lieutenant governor, and later a six-term U.S. congressman. He authored Senate Bill 1026, the bill enacted in 1973 that created the legislative infrastructure for subsequent allocation of state funding for CDU's affiliation with the University of California Regents for a joint medical education program. Dr. Dymally served as the first Director of the Urban Health Institute of CDU, was appointed Professor Emeritus in the College of Medicine in April 2012, and the new School of Nursing at the University bears his name.
H. A description of cash management in response to the February 2011 Special Visit report, page 16 (i.e., a description of the internal monthly budget reporting process, focusing on any changes since the June 2011 Commission meeting).

In the Final Report of the WASC Special Visit Team in February of 2011, attention was called to the awareness and efforts of CDU to address persistent cash flow concerns (page 16 of 49). The WASC team emphasized the importance of more effective cash flow management and projections, and encouraged the University to capitalize on the growing professional expertise of its finance officers and the positive impact of new budget monitoring and reporting systems. CDU continues to make substantial progress in these and several other areas of financial planning and management.

Continuous improvement and quality assurance initiatives of the University have been progressively consolidated under the direction of the chief operating officer (COO) of the University. Reporting directly to the president, Mr. Main is responsible for day-to-day operating activities for management of financial, human, and physical resources, and he oversees monthly, quarterly and annual financial reporting both internally and to external stakeholders. He collaboratively directs all campus operations to meet budget and other financial goals, short-term and long-range financial planning efforts, and he coordinates the annual budget development process of the University in support of strategic business goals and plans.

Achieving a balanced budget and increasing overall liquidity through robust budget projections and rigorous financial monitoring is compelling evidence of fiscal restraint and continuous improvement. With oversight exercised by the COO and the leadership of the chief budget and planning officer (CBPO), special attention is being devoted to deployment of a monthly budget reporting process that enhances the budget and cash controls of the University. As indicated in the following chart, CDU has substantially improved its liquidity on two fronts since FY2010 and FY2011, in regard to both cash-on-hand and fungible unrestricted investments.
These unrestricted investments are housed primarily in money-market accounts, without penalties or restrictions otherwise on the timing or amount of withdrawals for conversion to cash reserves; UCLA Foundation money-market funds can be transferred (via wire) to CDU bank deposits with 48-hour notice.

The following tasks in support of more reliable and timely budget monitoring have been completed over the past several months:

1. The unrestricted budget has been loaded into the integrated financial management (quasi-ERP) system of the university at the general-ledger account level.

2. All personnel supervisors have access to frequent updates of spreadsheet reports that provide position-level detail of their respective human resource budgets.

3. The quasi-ERP system is now producing budget-to-actual reports at the general-ledger account level. After upgrades to the human resources segment of the system, web-based management reports will be enabled so that supervisors and account managers can also run more detailed personnel-level reports at their convenience.

4. In the meantime, a budget-to-actual report and a report of the month’s actual non-personnel expenditures are e-mailed every month to administrative unit and academic program managers (see Exhibit IV.H.1 for sample reports).

5. The CBPO meets on an as-needed basis with supervisors and budget managers whose accounts appear to be at risk of substantial budget overruns for the fiscal year. An action plan is developed, and the CBPO monitors the action plan and convenes meetings at least on a monthly basis to discuss action plan progress and options for remediation of remaining issues.

6. As of January 2013, position-control modules are being progressively implemented, which will tie the original budget to the human resources and the payroll segments of the quasi-ERP system.

   a. Supervisors and account managers will have access to a system-generated report of their original budget at the personnel-position level.
   b. The office of human resources will be able to validate a position requisition back to a position control number to make sure actual payroll will remain tied to unit budgets.

CDU has also enhanced a suite of financial metrics for reports to its board of trustees. The chief budget planning officer and the controller have been providing the board of trustees with detailed financial data and analyses on a number of pertinent topics (see Exhibits IV.H.2 for several samples). Since July 1, 2012, their presentations to the board of trustees have addressed:

- Tuition revenue forecasts from best- to worst-case scenarios
- Faculty and staff headcount and FTE trends
- Interest-rate SWAP agreement terms and implications
- Student headcount, FTE, and credit hour trends
- Grant expenditures over time
- NIH endowment fund, investment return spending over time (also see section IV.G above)
I. A description of the plans for, and results of, fundraising since the time of the June 2011 Commission meeting.

Since the June 2011 meeting of the WASC commission, the University has invested heavily in dedicated professionals and in the implementation of a new platform for fundraising and other institutional advancement initiatives. Additionally, the University has leveraged the fundraising resources of members of the Board of Trustees, and has received in-kind support from other organizations that they are affiliated with for prospect research and event planning. Lastly, and concurrent with fundraising efforts in progress, the new advancement team of the University has drafted a fundraising plan to secure $6 million over a three-year period.

The return on this investment is increasingly evident. In FY2012, CDU raised $965,000. In the current fiscal year and as of February 18, 2013, the University has already received grants and contributions totaling $974,401 with another $725,180 in pending proposal submissions. Approximately, 82% or $803,686 of the current year grants and other contributions are designated for core operating and university priorities including: student scholarships, security surveillance, faculty development, Saturday Science Academy and HIV/AIDS Community Mobilization; 18% or $170,715 is undesignated. If the pending proposal submissions totaling $725,180 are funded, approximately 98% will be designated and 2% undesignated.

CDU fundraising efforts suffered historically from a lack of leadership continuity in the past as well as limited fundraising support staff, resulting in the use of multiple consultants and unstable fundraising capacity. Therefore, since June 2011 the University has focused on: (1) creating an infrastructure for fundraising; (2) identifying sources of funding that can be pursued to support the University’s academic and community outreach programs; and (3) cultivating and developing relationships with existing and potential contributors to the University. The following is an overview of specific activities undertaken and results achieved since the June 2011 WASC commission meeting in each of these three core areas of fundraising initiative.

1. Creating a Fundraising Infrastructure

   a. On April 2, 2012, the University hired Angela L. Minniefield, MPA, as the Vice President of Strategic Advancement. Ms. Minniefield is responsible for overall planning and administration of the development, alumni relations, annual giving, major gifts, external affairs and marketing programs of the University. She has over 20 years of professional experience, including 18 years in fundraising efforts focused on grant solicitation, planned events, donor stewardship and board development (Exhibit IV.I.1).

   b. A charter for the Development Committee of the Board of Trustees was drafted in April 2012. The charter will be used to identify specific fundraising roles and responsibilities for the development committee as well as individual members of the board.

   c. An analysis of contributions to CDU over the past 5 years from FY2007 through FY2012 has been conducted to determine annual dollar amounts raised by category (alumni, board, foundation, corporations, staff, other individuals etc), the average number of annual donors, and the average donor gift amount (Exhibit IV.I.2). The analysis will inform establishment of fundraising benchmarks over the next three years and will be used to project the increased number of annual contributions from individuals, foundations, and corporations.
d. Per advancement team policy now publicized on information distributed about “CDU Giving,” every gift made to the University will be acknowledged within 48 to 72 hours of receipt. Making a statement about when contributors can expect to receive a gift acknowledgement will hopefully reduce any negative attitudes about CDU that exist from contributors who were not acknowledged in a timely manner or at all in the past.

2. Identifying Funding Sources

a. From July 1, 2011 to June 30, 2012 over $965,000 in unrestricted funding was achieved including one major grant from The California Endowment of $925,000 and a number of smaller grants and contributions from the CDU Board of Trustees, former Board Members, alumni, students, faculty, United Way and others through the University’s Annual Mission Maker Campaign.

b. Two matrices developed from April through July of 2012, identify over 125 foundations and 35 corporations whose respective board members and funding interests best align with CDU academic and research programs. The matrix has been shared with members of the CDU board of trustees and executive management team to determine existing relationships and/or relationships that can potentially be cultivated.

c. In May of 2012, Dr. Carlisle and Ms. Minniefield met with Arthur J. Ochoa, JD, Senior Vice President, Chief Development Officer, Community Relations and Development, Cedars-Sinai Health System, to discuss the University’s advancement and development efforts and to seek advice on fundraising strategies that should be deployed in the short-term. Mr. Ochoa offered to provide in-kind services in the areas of prospect research and event planning and to introduce the CDU Advancement Team to the Cedars-Sinai development team as additional resources for guidance and support. In November 2012, Mr. Ochoa was appointed to the CDU Board of Trustees.

d. In July 2012, CDU provided names of (10) potential donors for major gifts to Cedars-Sinai Health Systems, Community Relations & Development Office, for conducting prospect screening and rating in-kind. A confidentiality agreement was developed and shared with Cedars-Sinai prior to sending the names for screening and rating.

e. An annual signature event is being planned for April 11, 2013 entitled Legacy Leaders Spring Gala. The University is seeking to raise $350,000 from the event.

f. Sixteen grant requests for funding were submitted to foundations or health associations from July 1, 2011 to June 30, 2012. To date twelve of the proposals have been funded totaling $2,714,800, and four were denied funding.

g. The Office of Strategic Advancement has submitted ten grant requests totaling $1,405,188 in funding to foundations since July 1, 2012. Six of the ten grant requests have been funded to date totaling $810,000, including $150,000 for core operating support, $500,000 for student scholarships, $25,000 for faculty professional development, $100,000 for security surveillance enhancements and $10,000 for the CDU President’s Inauguration, and $25,000 for the Spring Gala. One request in the amount of $150,000 was denied funding. The three pending requests total $445,188 and seek support for IT project management support, the Saturday Science Academy II, and the CDU Health Sciences Library Archives.
h. In July 2012 with a $100,000 challenge matching grant from The California Endowment, the University established the Mrs. Lillian Harkless Mobley Presidential Endowed Scholarship Fund. The University sought a $100,000 match in its Title III grant application from the federal government which has been approved. To date, the Mrs. Lillian Harkless Mobley Presidential Endowed Scholarship Fund totals $200,000.

i. In November 2012, the University received notice of a $500,000 major gift for the naming of the CDU Health Sciences Library.

j. In November 2012, the University launched the Annual Mission Maker Campaign. The Mission Maker Campaign goal is $75,000 and will run through April 30, 2013. As of February 12, 2013, the Mission Maker Campaign has raised $29,363.67 or 39% of the $75,000 goal and has received contributions from 54 individuals representing 36% of the 250 individual donor goal.

3. Cultivating, Reestablishing and Developing Relationships with Potential Contributors

a. A long-overdue final report was issued to UniHealth Foundation on June 24, 2012. On July 27, 2012, the University received an email from the President/CEO of UniHealth Foundation thanking us for the “excellent assessment of a project that was implemented in a time of enormous institutional chaos.”

b. On July 17, 2012 the University held an inaugural “Legacy Reception” at its private residence to re-build relationships and re-engage with members of the community and potential funders. The event was well attended with more than 120 guests, and approximately $1,000 was raised through a silent auction.

c. In July 2012 the University launched the Quarterly Alumni Newsletter and distributed the Summer 2012 edition by U.S. mail to 3,500 alumni and email to 836 alumni. In October 2012, the University issued its Fall/Winter 2012 edition of the Alumni Newsletter via e-mail only. The third installment of the newsletter was distributed on January 30, 2013.

d. On July 30, 2012, the University held an Alumni Reception for alumni, faculty and other friends of the University at the National Medical Association’s annual conference in New Orleans. The reception was attended by over 100 guests. Dr. Gudata Hinika, of California Hospital Medical Center in Los Angeles, was honored with the CDU Alumni Achievement Award at the reception. A contribution of $1,000 was received from an alumnus at the reception to support the College of Medicine’s 1000x1000 campaign. The 1000x1000 campaign was launched in December 2009 and to date has received twelve gifts totaling $12,000.

e. On October 24, 2012, the University held its first on-campus Alumni Legacy Reception. Over 80 guests attended the reception including current students and 16 alumni, as well as a number of faculty and staff who provided education and training to the alumni when they were CDU students or residents. In addition, two former alumni who were unable to attend the reception sent donations totaling $300. A second Alumni Legacy Reception was held on January 23, 2013; 20 alumni attended, as well as 69 others, including faculty, staff, and current students of the University.
In regard to the terms and timeline of next steps, a draft fundraising plan designed to secure $6 million over a three-year period has been developed and is undergoing review and revision by the President of the University. The fundraising plan identifies targets for giving from the Board of Trustees, alumni, individuals, corporations, and foundations. The $6 million target was derived by analyzing historic levels of giving to CDU by category from July 1, 2007 to June 30, 2012 (Exhibit IV.I.2), inflating average annual contribution levels by approximately 15% and then multiplying that number by three to identify a 3-year target for fundraising.

This analysis recognizes that, on average, there have only been 160 annual contributors to CDU per year, suggesting that a significant emphasis must be placed on developing individual relationships through friendraising, cultivation of potential contributors and stewardship of those who have contributed. This plan seeks to raise the $6 million over the next three years through such strategies as: Annual Campaign, Direct Mail, Phone-a-thons, Face-to-Face Meetings, Grant Requests, Special Events, and Major Gifts. Social Media platforms such as Facebook, Twitter, and LinkedIn will be major tools for outreach.

The University recognizes that these activities and actions must be sustained. The most important aspect of fundraising is relationship building and donor stewardship. Significant accomplishments were achieved in a relatively short period of time, and the CDU fundraising capacity is steadily expanding. However, in order to have continued success the University must sustain the fundraising infrastructure being implemented. Efforts as such will include annual performance objectives and appraisals for staff of the CDU fundraising/strategic advancement team, and careful monitoring and reporting on the results of the fundraising plan under development and ultimately approved by the board of trustees of the University.
J. Budget Projections for the Next Three Fiscal Years With Key Assumptions

This section presents CDU budget projections for the next three fiscal years (FY2014-FY2016) with key assumptions for each set of projections, per additional documentation required by WASC for interim reports with financial issues. The baseline parameters for these budget projections are derived from actual revenues and expenditures of the University through the first six months of the current fiscal year (FY2013), for both unrestricted and restricted accounts; actual figures for FY2012 also provide a useful comparison point. By including consideration of restricted account revenues and expenditures, primarily for sponsored research awards, the financial viability and long-term sustainability of the university across all sources of financial support can be assessed.

The following table shows total revenues and expenditures for all unrestricted and restricted accounts of the University, including actual amounts for last fiscal year (FY2012) and estimated figures for the close of the current and next three fiscal years. Also in contrast to the tables on budget-to-actual variances for FY2012 and FY2013 (sections IV.C and IV.D above), which provide operational line-item details, this preliminary business plan for the next three fiscal years comprises an overarching framework for maintaining a balanced budget. The actual allocation of funds to specific line items for annual budgets of particular operational units, will be determined through the new strategic planning and budgeting process of the University (as illustrated above and in Exhibit IV.E.1).

**CDU TOTAL UNIVERSITY**

<table>
<thead>
<tr>
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<tr>
<td><strong>Dollars in Thousands (000's)</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Revenues:</strong></td>
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<tr>
<td>Tuition and Fees</td>
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<td>12,048</td>
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<td>Federal, State, Local Programs</td>
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<td>All Other Revenue</td>
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<td><strong>Expenditures:</strong></td>
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<tr>
<td>Unrestricted</td>
<td>19,548</td>
<td>22,423</td>
<td>23,513</td>
<td>23,953</td>
<td>24,402</td>
</tr>
<tr>
<td>Restricted</td>
<td>26,817</td>
<td>26,537</td>
<td>27,169</td>
<td>27,812</td>
<td>28,468</td>
</tr>
<tr>
<td>Strategic Reserves</td>
<td>0</td>
<td>0</td>
<td>600</td>
<td>3,050</td>
<td>3,650</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>46,365</td>
<td>48,961</td>
<td>51,281</td>
<td>54,815</td>
<td>56,520</td>
</tr>
<tr>
<td><strong>subtotal</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>14,065</td>
<td>10,103</td>
<td>10,201</td>
<td>10,259</td>
<td>10,329</td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td>2,717</td>
<td>2,799</td>
<td>2,855</td>
<td>2,912</td>
<td>2,970</td>
</tr>
<tr>
<td><strong>Interest</strong></td>
<td>1,869</td>
<td>2,061</td>
<td>2,107</td>
<td>2,108</td>
<td>2,108</td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td>9,478</td>
<td>5,243</td>
<td>5,239</td>
<td>5,239</td>
<td>5,250</td>
</tr>
<tr>
<td><strong>MTM Swap valuation loss/(gain) †</strong></td>
<td>3,941</td>
<td>(783)</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>NET CHANGE Over / (Under)</strong></td>
<td>5,537</td>
<td>6,026</td>
<td>5,239</td>
<td>5,239</td>
<td>5,250</td>
</tr>
</tbody>
</table>

† MTM (mark-to-market) swap valuation change is a non-cash GAAP adjustment on the interest rate hedge contract
The $3.94 million loss in the mark-to-market valuation of the SWAP agreement is a non-cash adjustment that follows generally accepted accounting principles (GAAP) for such hedge vehicles. The valuation is expected to be partially offset this fiscal year with a $783,000 decrease in the mark-to-market valuation of the SWAP agreement. The monthly SWAP fee payments are in the line-time for Interest payments, as well as the debt service interest and related fees. Interest payment expenditures are forecast to remain in aggregate around $2.1 million per annum. (See section IV.C for additional details on the long-term risk of the current SWAP agreement.)

With the net impact of the SWAP valuations accounted for by the close of FY2012, the aggregate balance sheet of the University in the current fiscal year provides an appropriate foundation for projections of balanced budgets over the course of the next three fiscal years.

The forecast for the current fiscal year (FY2013) includes a net surplus of $5,243,000. This includes $5 million in temporary restricted assets, which is the annual contribution to the CDU endowment from NIH (NIH is committed to three remaining installments of $5 million per annum to the endowment corpus of the University; see section IV.G for additional details on the CDU endowment funds managed by the UCLA Foundation). CDU also projects that its unrestricted budget will net surpluses comparable to FY2013 in the next three fiscal years, from $239,000 in FY2014 to $250,000 in FY2016.

The budget forecast for the close of the current fiscal year and the budget projections for the next three fiscal years are based primarily on actual revenues and expenditures through the first six months of the current fiscal year (FY2013). In other words, the baseline parameters for the long-range budget projections begin with the assumption that in aggregate the current financial circumstances of CDU will prevail for the foreseeable future. Assumptions made in regard to specific operational line items as of FY2014 and beyond relative to the current fiscal year, include:

1. An annual increase of 2% in personnel and non-labor costs across all operational domains of the University, both administrative and academic, with fringe benefit rates remaining on average at 23%. The financial impact will be net neutral from normal personnel turnover and from maintenance costs and on-going new investments in facilities, instructional technology, library holdings, and other physical resources.

2. Modest increases in net unduplicated student FTE headcount and attendant student credit hours, with every increment of 50 students netting roughly $1 million in additional tuition and fees. Notably, projected enrollments increase by 100 overall from 300 to 400 full-time students in the School of Nursing, in part due to a new Doctor of Nursing Practice degree by FY2016. College of Science and Health enrollments are projected to increase by 50 additional full-time students as well, with modest growth in current programs and re-introduction of a Physician Assistant program at a master's degree level. (See section V.C for discussion of prospective changes in the CDU academic program array).

3. Anticipated annual 2% increases in tuition and fee rates will not adversely affect current trends in rates of student matriculation, attrition, and graduation.

4. Legal expenses, which include attorney fees and settlement costs, will decrease by $150,000 in FY2014 and then remain flat thereafter at roughly $1.7 million per annum.

5. Interest payments of all kinds in aggregate will remain steady at approximately $2.1 million per annum.
6. The aggregate amount of restricted funds from sponsored research awards will continue at present levels, as will the indirect cost (IDC) recovery rates for the University.

7. Insurance costs of all kinds in aggregate will continue to rise over the coming year, by $150,000 in FY2014, and then remain steady thereafter at approximately $713,000 per annum.

8. The costs of utilities of all kinds in aggregate are expected to rise substantially over the next several years, from an additional $50,000 in FY2014 to an additional $30,000 in each of the next two fiscal years. This comprises a projected increase of 21%, from roughly $524,000 total in the current fiscal year to $634,000 total by FY2016.

The implications of these CDU budget projections include sustained positive trends in robust financial ratios. The WASC net asset, net income, operating income, and viability ratios, all remain solidly positive through FY2016. Comparable forecasts of the continuously improving financial health of the University are also evident in the primary reserve, equity, and net income ratios of the United States Department of Education, and in the cash-on-hand and debt coverage ratios of the loan covenants of CDU debt holders. (Exhibits IV.J.1-3).

Furthermore, if the budget assumptions articulated above hold through the next three fiscal years for increases in tuition and fee revenue in particular, then the University can dedicate modest to substantial funding to three new increasingly critical areas of investment.

<table>
<thead>
<tr>
<th>Projection of Special Investment Funds</th>
<th>Plan FY2014</th>
<th>Plan FY2015</th>
<th>Plan FY2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Reserves</td>
<td>$ 250,000</td>
<td>$ 350,000</td>
<td>$ 400,000</td>
</tr>
<tr>
<td>Faculty Recruitment and Retention</td>
<td>$ 100,000</td>
<td>$ 200,000</td>
<td>$ 250,000</td>
</tr>
<tr>
<td>Strategic Reserves</td>
<td>$ 250,000</td>
<td>$ 2,500,000</td>
<td>$ 3,000,000</td>
</tr>
</tbody>
</table>

First, CDU endeavors to progressively enhance its cash reserves as a contingency fund for major unanticipated expenses. As noted in the recap of net assets in the summary table above, the University is projecting that unrestricted net assets will increase from $243,000 in FY2013 to $250,000 in FY2016, after adjusting for cash flow line items (depreciation, capital spending, and working capital); thus, CDU also expects to increase its cash reserves accordingly.

Second, the University recognizes the growing importance of establishing a special fund explicitly dedicated to faculty recruitment and retention. By setting aside $550,000 over the course of the next three years for this purpose, CDU can at least partially address sponsored research obligations to invest in recruitment of senior faculty and development of junior faculty, and can support anticipated changes in the academic program array of the University (see section V.C below).

Finally, the projected CDU cash flow outcomes will enable substantial allocations to strategic reserves, for specific investments in academic infrastructure yet to be determined; from $250,000 in FY2014 to $2.5 million and then $3 million in FY2015 and FY2016, respectively.
A new strategic plan for the University is nearing completion under the leadership of President Carlisle (see section V.B below), and the dedication of almost $6 million to CDU strategic reserves over the next three fiscal years is a powerful testament to his commitment to an organic, grass-roots approach to the investment priorities of the University. Indeed, the COO and finance officers responsible for preparing these long-range budget projections remained cognizant of not setting any new policy on resource allocations outside of the strategic planning process, consistent with a shared governance model for evidence-based decision making.

The primary objective of this updated business plan is to secure balanced budget outcomes on an annual basis, with resource allocations explicitly tied to the mission and new strategic plan of the University. This is feasible only by maintaining current overall budget constraints through the next fiscal year. As of fiscal year 2015, CDU can progressively capitalize on additional revenues through deployment of its strategic reserves, without jeopardizing either the quality of its educational programs or long-term financial sustainability.
V. IDENTIFICATION OF OTHER CHANGES AND ISSUES CURRENTLY FACING THE INSTITUTION

In July 2011 the WASC Commission commended the University for decisive action taken to resolve its financial crisis (Action Letter, page 2 of 6). CDU continues substantial improvement on each side of the budget ledger, both cost control and revenue generation, as demonstrated in detail throughout this interim report. In addition to revisiting issues of financial sustainability, planning, and management, the special visit scheduled by the WASC Commission for spring 2014 will focus on two other areas of concern: (1) faculty-related policies and governance; and (2) assessment, student success, and program review (Action Letter, page 5 of 6).

The University is consolidating its progress in these two other operational areas as well. Continuity in faculty leadership has been assured with elections and the normal transfer of power in various faculty governing bodies, and senior management has identified and progressively filled remaining gaps in academic affairs policy. Similarly, even with the challenges of rapid program development in its relatively new school of nursing, CDU continues a strong tradition of student success with robust systems for annual assessments and academic program review. The development of a new strategic plan has been especially consequential in providing a general as well as unit-specific framework for how for the University will continue to capitalize on the academic and administrative foundations set over the past few years.

A. Continuity of Leadership and Shared Governance

David M. Carlisle, MD, PhD, was appointed President of the University on July 1, 2011, just days before receipt of the WASC Commission action letter that granted full accreditation to CDU. He focused first on his executive management team and re-structuring of administrative operations. In order to ensure a balanced operational budget, and under the direction of James Main, the new COO, the University re-organized its administrative infrastructure and re-prioritized its resource allocations. As detailed in this interim report and accompanying CDU organization charts (Exhibit VII.E), other notable changes in senior management personnel included hiring of a new Vice President for Strategic Advancement (Angela Minniefield, MPA), and of additional dedicated professionals in the areas of budget planning, risk management, and employee relations; a search is underway for recruitment of in-house legal counsel.

Marvin O’Quinn, MPH, became the new Chair of the Board of Trustees effective January 1, 2013; he succeeded Mr. James Lott, who stepped down from the board. Mr. O’Quinn is the Executive Vice President of Dignity Health (formerly Catholic Healthcare West). New trustees over the past year include recruitment of:

1) Teresa J. Berryman, former Vice Chancellor for Administration and Finance, University of Colorado, Denver, to serve as Vice Chair of the board;
2) Arthur Ochoa, JD, Senior Vice President for Development, Cedars-Sinai Health System;
3) John Yamamoto, JD, Chief Counsel, Kaiser Permanente;
4) Howard Kahn, CEO of LA Care Health Plan; and
5) Kristine Bolotaulo, RN, Bsc, CDU Student Representative.

These new board members lend considerable additional prestige and influence to an already stellar group of nationally renowned leaders in academic and clinical healthcare organizations (see trustee biosketches posted on the CDU website).
Los Angeles County Supervisor Mark Ridley-Thomas continues to serve as chair of the CDU board of councilors. This remains significant given the central role of Los Angeles county government in healthcare provision and the leadership role of the supervisor in re-opening MLK hospital within the next few years for in-patient services and eventually medical residency programs.

**Senior Academic Leadership**

Major changes also occurred during the past year in the senior academic leadership of the University. At the start of the current fiscal year this past July 2012, Richard Baker, MD, stepped down from his dual role as Provost of CDU and Dean of the College of Medicine (COM); the Associate Dean of COM, Kenneth Wolf, PhD, left the university shortly thereafter to become Dean of the College of Science and Health at William Patterson University in New Jersey. Most recently, Jay Vadgama, PhD, was appointed to serve as the Interim Executive Vice President for Research and Health Affairs; he is filling in for Keith Norris, MD, who is on a leave of absence.

These changes in academic leadership are significant on two accreditation fronts. First, the establishment in early 2010 of a provost model for academic infrastructure decision-making and academic program review was cited by the 2011 WASC Site Visit Team as critical to the prospects of the University in securing full regional accreditation (see their Final Report, page 46 of 49). Second, the College of Medicine MD program operating jointly and under the auspices of the David Geffen School of Medicine (DGSOM) at UCLA is under accreditation review this year by the Liaison Committee on Medical Education (LCME).

In part to ensure continuity of leadership for accreditation initiatives, President Carlisle assumed the role of Provost (CAO) in an acting capacity, and he appointed Daphne Calmes, MD, as the Interim Dean of the College of Medicine (COM). Dr. Calmes has served in COM since 1986 as the Associate Dean of Student Affairs, and thus is well positioned to lead a newly constituted senior management team. Ronald Edelstein, EdD, returned to COM from the provost’s office to become the Senior Associate Dean of Academic Affairs; he had served previously since 1978 as an academic officer in the college. Jimmy Hara, MD and former Chair of Family Medicine at Kaiser Permanente of Southern California, was recruited in October 2012 to serve as Interim Associate Dean of Graduate Medical Education (for details on his credentials see the campus broadcast announcing his hire). The University remains entirely confident about sustaining the educational effectiveness and full specialized accreditation of its flagship academic program, given the expertise of this management team in the design and delivery of medical education programs, and since Dr. Calmes was already the key representative of the college to the LCME preparation team at UCLA-DGSOM.

**Shared Governance**

Continuity of faculty leadership was also assured during the past year with the annual elections of officers and representatives of the academic senate and governing bodies of the three CDU colleges/schools. For example, in spring of 2012 Mohsen Bazargan, PhD, was re-elected as President and Victor Chaban, PhD, as Vice President of the Academic Senate. Furthermore, Vidya Kaushik, MD and Professor Emeritus, was selected this past fall 2012 by the board of trustees to serve another two-year term as its faculty representative. Per board bylaws, the position of student trustee rotated to a representative of the school of nursing, and Kristine Bolotaulo, RN, BSc, was selected by the board from a pool of four nursing student candidates. The faculty and student trustees have full voting rights on the board.
Senior management and faculty leadership alike recognize the need to remain abreast of campus-wide sentiment about the academic and financial progress of the University, especially during a period of continuing transformation. Per past practice, the academic senate conducted a climate survey of CDU faculty and staff in May of 2012 (students will be surveyed separately this calendar year). The results reveal lingering concerns among faculty and staff about employee morale and trust in senior management, and about open communication and decision-making transparency. (Exhibit V.A.1)

In the cover memo accompanying the climate survey data, the academic senate president cautioned that the findings must be interpreted in light of the overall response rate (of 33%) and the campus context at the time the survey was conducted. Environmental factors that undoubtedly influenced the survey results included distribution in spring 2012 of budget scenarios for FY2013, which led to spirited discussions about tradeoffs of cost-cutting options. The University was also in the midst of an appeal to the National League for Nursing Accrediting Commission (NLNAC) about its decision (since reversed) to deny initial accreditation of the new CDU school of nursing (SON).

In a separate recent memorandum to the president of the University, the legislative council of the academic senate reiterated the need for vigilance in attending to the following areas of continuing faculty concern: (1) financial sustainability, planning, and management; (2) communication with WASC and with the CDU community; and (3) presidential and board leadership. These issues echo those highlighted by WASC for the special visit of 2011, and the senior administration of the University is endeavoring to address each concern systematically through a variety of traditional and emergent strategies.

Given the focus of this interim report and as documented in detail above, issues concerning the current financial foundations and long-term sustainability of CDU are being intensively analyzed and extensively vetted in a wide variety of executive and faculty governance settings. The ALO on behalf of the provost is compiling documentation on the terms and timing of communication with WASC to share with the faculty, and the offices of the President and institutional advancement are rapidly expanding avenues of communication to the University community. In addition to monthly university-wide forums and special informal lunch-hour sessions with the president, the newsletters and outreach events sponsored by the office of institutional advancement are reaching progressively wider stakeholder audiences.

With continuity in presidential and board leadership since 2011, CDU remains committed to compliance with WASC accreditation standards, continuous improvement through evidence-based decision making, and quality assurance controls to protect and advance the best interests of University and its faculty, students, staff, and community affiliates. The results of moving forward as such through a system of shared governance will be most evident in the extent to which CDU successfully continues its highly inclusive, grass-roots approach to finalizing and implementing a new strategic plan, with corresponding alignment of the academic plan and budget priorities for FY2014.

B. Strategic Plan Development and Implementation

President Carlisle continues a productive precedent of working with volunteer members of the Executive Service Corp (ESC) to prepare and implement a revised strategic plan for the University. ESC is non-profit organization that provides high-quality, low-cost management support services to other non-profits in Southern California, through the work of over 120 volunteer consultants who have retired from senior executive positions in the private or public sector. Since 2009 with targeted funding from the UniHealth Foundation, a regional healthcare philanthropy, several ESC consultants have assisted CDU administration with a variety of task in the areas of executive searches, academic accreditation, and strategic planning initiatives.
A primary objective of the new strategic plan of the University is to provide a realistic operational plan that aligns the mission and goals of CDU with corresponding budget, academic, and facility master plans. The new strategic plan is nearing completion, and will provide a framework for the continued progress of the University in fulfilling its mission and core educational and business functions.

The development of the new CDU strategic plan began in earnest as of August 2012 with a series of special stakeholder meetings. The meetings were convened off-site, courtesy of and at the downtown Los Angeles headquarters of The California Endowment (TCE), a private statewide health foundation dedicated to expanding access and affordability of quality healthcare to underserved communities. Representatives of the full range of campus constituencies met with senior management for day-long sessions over the course of several months, to first review the previous strategic plan and then to update the mission, vision, and value statements of the University. (Exhibit V.B.1)

The second phase of meetings focused on goal development, establishment of strategic priorities and institution-level objectives, with subsequent sessions progressively drilling down to lower levels of administrative and academic infrastructure and attendant unit objectives and priorities. For example, the articulated CDU goals resulting from this highly-inclusive, grass-roots effort, are:

- Student Success;
- Academic Excellence;
- Financial Sustainability;
- Institutional Excellence;
- Clinical Service; and
- Community Partnerships.

The strategic planning meetings were extremely well attended, highly energized by serious and open communication, and reports of the results of the proceedings were equally well received by the wider campus community. Formal vetting and approval of the overall and component pieces of the new strategic plan is in process. Senior administrative and academic leadership will oversee action plan implementation, and will institutionalize an annual process for continuously re-aligning various planning processes. As illustrated in the attached chart on the CDU strategic planning/budget cycle (Exhibit IV.E.1), this iterative process starts with revisiting strategic planning milestones and then moves into an annual budget development process; budget outcomes and constraints then feed back into revision of strategic and other plans, and so on as the cycle resets.

In large part due to the inclusive, systematic strategic planning process conducted by President Carlisle, the University expects positive trends to persist in the regulatory compliance, continuous improvement, and quality assurance functions of its core business operations. CDU will also revise and re-align its academic and facilities plans, so that the academic infrastructure of the University has sufficient capacity to ensure educational excellence and student success.

C. Program-specific Accreditation and Continuity of Student Success

The University’s commitment to continuity in student success and the quality and integrity of its academic programs more broadly, is evident on multiple fronts. Since regional accreditation by WASC in July of 2011, CDU secured initial program-specific accreditation for master’s degrees in the School of Nursing (SON) and the College of Science and Health (COSH). Both the National League for Nursing Accrediting Commission (NLNAC) and the Commission on Collegiate Nursing Education (CCNE) granted SON a full five-year accreditation period for its master of science in nursing (MSN).
There are two MSN tracks: one for an entry-level master (ELM) and the second for family nurse practitioners (FNP). The most recent report of the California Bureau of Registered Nursing shows a 100% state board passage rate: all 12 graduates of the ELM track who took the NCLEX RN licensure exam, and all 93 FNP graduates who took exams to earn either an FNP-BC or NP-C credential.

Similarly, COSH was granted a five-year term of accreditation (from 2012-17) by the Council on Education for Public Health (CEPH) for its MPH degree in urban public health. The MPH graduation rates have steadily improved since first matriculating students in the fall term of 2006, with for example, a 71% rate for its 2009 cohort (class of 2011) and 88% rate for its 2010 cohort (class of 2012). Longer term, the Health Information Technology program in COSH has been part of the CDU program array since 1988; the program grants an associate degree and is accredited by the Commission on Accreditation for Health Informatics and Information Management Education (CAHIIM).

A site visit for re-accreditation of the Radiologic Technology Program by the Joint Review Committee on Education in Radiologic Technology (JRCERT) took place at COSH on November 8-9, 2012, and progressive improvement historically in indicators of student success bode well for full re-accreditation of this program as well. For example, the program’s credentialing exam pass rates and average scores have improved substantially over the past several years, from a pass rate of 48% and average score of 75.4% in 2008 to a pass rate of 95% and average score of 85% in 2011.

The medical education program of the College of Medicine (COM) consistently maintains a national reputation for academic excellence across a broad array of student success indicators. The Drew/UCLA Medical Education Program was rated “Best Performer” in 2008 as the most diverse medical student body in the University of California system by the Greenlining Institute, a multi-ethnic public policy research and advocacy organization. The COM medical education program is also relatively unique for an innovative research curriculum: all students conduct a health disparities thesis project, and several each year either independently or in collaboration with faculty mentors secure presentations in national scientific meetings and peer-reviewed publications.

Consistent with the University’s mission, results of the Association of American Medical Colleges 2010 graduation questionnaire show that 94% of the 2012 CDU graduates are committed to working in underserved communities, versus 45% of other DGSOM graduates. The national resident match day results also reveal the special nature of student outcomes in this program: this past spring 2012, for example, almost two-thirds (63%) of the graduates chose a primary care specialty (Exhibit V.C.1), well above the national average; notably, fully one-third of the graduates matched into family medicine residency programs, which is three times the national average for that specialty.

**Substantive Change of the Program Array**

In the coming months the University is preparing WASC substantive change applications for two programs: (1) re-introduction of its Physician Assistant program at a master’s degree level in 2015; and (2) a new Doctor of Nursing Practice (DNP) program with plans to matriculate its first cohort of 20 doctoral students in spring or summer term of 2016 (the DNP is a first degree program at a new degree level, and therefore a structural change requiring review by the full WASC Commission). In the meantime, CDU has clearance from other regulatory agencies to expand its certificate programs.

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In January 2013 the Department of Education notified the University about approval of a move from provisional to regular status in regard to gainful employment regulations and Title IV federal financial aid programs. Recertification runs through June 30, 2015 and was granted in recognition of WASC accreditation of the University in 2011 and demonstrated improvements since then in the business operations and quality assurance controls of the CDU Office of Financial Aid.

The University will remain mindful of budget and other capacity constraints as it explores options for deepening or expanding its academic program array. The CDU Academic Program Review Committee (APRC), which functions in an advisory capacity to the provost, is actively reviewing the educational outcomes and financial status of academic programs. The focus of the committee is on those facets of program viability and long-term sustainability that will inform the budget approval process for fiscal year 2014 and beyond.

The APRC views the counsel of the WASC 2011 special visit Team Report as a guiding principle for reviewing any prospective changes to its fully accredited CDU program array (page 48 of 49):

“Develop a detailed academic strategic plan for growth and academic improvement. The plan needs to be especially attentive to COSH, where mission may drive the University to expand too rapidly. CDU must do only that which it can do excellently.”
VI. CONCLUDING STATEMENT

Consistent with the strategic/budget planning initiative of the University, senior leadership of the University emphasizes fiscal accountability, responsibility, and transparency as guiding values. Investment in financial personnel and data infrastructure ultimately results in higher-quality collaborative decision-making. With inclusiveness and sufficient transparency, there is also a collateral benefit of nurturing trust among an expansive array of campus stakeholders.

Returns on investment in professional expertise and robust data infrastructure are both quantitative and qualitative in nature. The financial analyses and data metrics now available to faculty, senior administration, and the board of trustees more accurately and fully inform decisions on a wide variety of critical operational matters. The quantitative impact of changes underway at CDU ranges from real-time evidence-based decision making to managing a position control framework that validates employee hiring and other resource allocation decisions.

Similarly, qualitative changes are increasingly evident in how financial matters are viewed by various campus stakeholders. Providing monthly budget-to-actual reports to program and account managers is key to internalizing the values of fiscal accountability, responsibility, and transparency. The levels of individual and collective stress over financial sustainability are lowered when stakeholders see real-time financial information. Campus constituencies also see the new leadership as being engaged and as embracing financial sustainability on many levels.

The dedicated professionals who prepare detailed financial reports and summary metrics are working carefully and tirelessly to build trust and credibility with stakeholders by providing robust, reliable, and timely data that can be readily reconciled between reporting periods. These administrative staff communicate regularly to build consensus on the definition of metrics and to keep each other informed of the unique aspects of their own respective metrics, which often must be adapted to fit external reporting requirements.

Recap of WASC Commission Action Items

The nine specific action items identified by the WASC Commission as topics for detailed consideration in this interim report pose varying degrees of risk and opportunity for the University over the coming few years.

A. Finance Personnel - The CDU Office of Finance is fully staffed as of this past January 2013, and is functioning under new leadership. The CAO and COO of the University are committed to the retention and professional development of these core financial personnel, who in turn will lead and cross-train other dedicated financial officers at business unit levels. Maintaining staff continuity and deepening professional expertise will be the core markers of success in this critical area of human resource investment by the University. Milestones include positive results of annual performance reviews at the turn of the fiscal year and improved outcomes of independent financial audits this fall 2013.

B. Audited Financial Statements - The University aims to continue to improve its audit performance on three main fronts. Benchmarks and milestones relative to the increasingly strong performance of CDU over the past few years include: (1) continuation of no material weaknesses; (2) securing no significant deficiencies; (3) completion of the A-133 and other independent audits well before the end of October 2013, and (4) reduction of third-party costs for conducting the audits, well below the $250,000 figure for 2012.
C. & D. Annual Budget-to-Actual Variances - Continuous improvement is already evident in the capacity of CDU to more accurately forecast both revenues and expenditures and to proactively identify and remedy budget variances on a relatively real-time basis. The first milestone in this area is how well the current projections for line-item budget outcomes approximate the actual surplus and deficit outcomes at the close of this fiscal year. Moving forward, budget-to-actual variances should become progressively smaller on at least an annual if not quarterly basis. It remains uncertain what options may be feasible for CDU to pursue to reduce its financial exposure to the current SWAP agreement, with ultimate success arguably due largely to macro-economic factors well beyond the control of the University.

E. Budget Planning and Monitoring Process - The ability of the University to ensure effective evidence-based decision making in a shared governance context depends on continued consolidation of otherwise disparate database applications and workflow processes into a quasi-ERP system. There are multiple milestones for integration of each of the various component financial, human, and physical resource platforms, and one major set of checkpoints: for the Title III, Part B grant to CDU. Annual performance reports on this Title III funding are due each December to the U.S. Department of Education (DOE), and annual budget plans are approved by the DOE each fall. A grant year commences in October, and thus at present CDU is 5 months into a 2-year funding cycle. Next calendar year the University will submit a new 5-year plan to the DOE (for funding from October 2014 to September 2019).

F. Financial Sustainability Business Plan - The 2010 plan, which was needed at the time to inform budget assumptions and decision making during a period of substantial financial challenges, no longer serves as a useful guide to the University for budget planning and resource allocations. In contrast, the three-year budget projections provided in section IV.J of this interim report comprise a new overall framework for maintaining balanced budgets on an annual aggregate basis. The milestones for this action item are both short- and long-term, with outcomes over the course of the next three fiscal years a true test of how well CDU understands its current fiscal constraints and opportunities. Once the new strategic plan of the University is approved by the board of trustees this spring, work will begin in earnest on a new fully-fledged financial sustainability business plan.

G. University of California Support - In the next month to two CDU will receive notification from the University of California Regents about the terms of its annual funding of the joint DREW/UCLA Medical Education Program. Sustained success annually in this area of critical support is measured by any allocation substantially higher than the historically conservative amount of $9.5 million in the current fiscal-year budget. Similarly, the quarterly reports of the UCLA Foundation on the performance of its general investment pool will show whether the impressive 7.5% rate of return over the past ten years can be secured for the next several years.

H. Cash Management and Unrestricted Investments - The unrestricted financial reserves of the University increased substantially in fiscal-year 2012 relative to the past three fiscal years. With cash-on-hand financial ratios now well above creditor and regulatory mandates, CDU will continue to re-allocate cash-on-hand as bank deposits to UCLA money market funds for a higher yield. The core milestone for this action item on an annual basis, is progressively returning the cash and unrestricted investments reserves of the University to the levels achieved prior to the peak of its liquidity problems from FY2009 to FY2011.
I. Fundraising - CDU has embarked on a number of traditional and mission-specific fundraising campaigns, under the leadership of its new vice president for strategic advancement and development. Each campaign has specific timelines for fundraising targets, with a long-term master milestone of securing a total of $6 million in primarily unrestricted or designated donations based on strategic priorities over the course of the next three fiscal years. Striking an effective yet delicate balance between time-tested versus emergent social media techniques will be fundamental to the success of the fundraising initiatives of the University.

SUMMATION

In summary, the financial infrastructure of CDU was able to fulfill basic operational functions in June 2011, such that the University could remain fiscally solvent and compliant with accreditation standards. However, financial personnel and workflows relied on a number of relatively inefficient and error-prone manual processes to accomplish those fundamental tasks. With conversion from paper-dependent to automated electronic processes, financial work flows are progressively improving on multiple fronts: leaders and managers responsible for decision-making and quality assurance are receiving a wider array of standardized reports on a routine basis, and there is greater ad hoc reporting capability. The results include more budget timely monitoring and more robust internal control of financial transactions.

More broadly, the University is fulfilling the three core functions of accreditation, as stated in the WASC re-design of its accreditation process (see WASC Accreditation Redesign at a Glance, page 3). As should be evident, CDU remains compliant with WASC accreditation standards, committed to continuous improvement through evidence-based decision-making, and the University has emphasized quality assurance initiatives in the financial affairs arena in particular. In the next special report to WASC, which precedes the Special Visit scheduled by the WASC Commission for spring 2014, the University will provide comprehensive financial updates and address a wider range of matters pertaining to its institutional capacity and educational effectiveness.
VII. REQUIRED DOCUMENTATION FOR ALL INTERIM REPORTS

The documentation required by WASC for all interim reports is either attached as a supplemental exhibit without commentary, or discussed above in the narrative of the report if financial in nature.

A. Current catalog(s) - CD-ROM or link to web-based catalog will suffice

The current as well as prior iterations of the catalog since 2007 are posted on the web site of the University at http://www.cdrewu.edu/Catalog.

B. Summary Data Form - may be found at http://www.wasc-senior.org/InterimReport

The summary data forms required by WASC are attached as Exhibit VII.B, and include detailed information as applicable on CDU’s:

1) Institutional Profile

2) Undergraduate Programs

   ▪ Table 1: Total Enrollments
   ▪ Table 2: 6-yr Cohort Graduation Rates
   ▪ Table 3: 6-yr Cohort Transfer Graduation Rates (n/a)

3) Graduate Programs

   ▪ Table 4: IPEDS by Program Level
   ▪ Table 5: Current Faculty

C. Complete set of Required Data Exhibits to Support Proposals, Special Visit Reports & Interim Reports - may be found at http://www.wasc-senior.org/InterimReport

The complete set of data exhibits required by WASC are already referenced in other sections or attached as Exhibit VII.C, and include detailed information as applicable on CDU’s:

1) Institutional Type and Organizational Structure

   Catalog - web-based at http://www.cdrewu.edu/Catalog (also see VII.A above)

   Mission Statement (also see second cover page and section IV.C of this interim report)

   To conduct education, research, and clinical services in the context of community engagement to train health professionals who promote wellness, provide care with excellence and compassion, and transform the health of underserved communities.

   Organizational Charts (also see VII.E below)

The organization charts of the University are attached as Exhibit VII.E, and highlight changes in senior positions and personnel (both administrative and academic) since the last WASC site visit in February 2011. Per the requirements of the WASC Commission for this particular interim report, section IV.A above provides a detailed description and explanation of changes in financial positions and personnel since the last site visit in February 2011; current job descriptions for finance officers are attached as Exhibit IV.A.1-5.
2) **Student Body Characteristics**

Data exhibits on characteristics of the CDU student body are attached as part of *Exhibit VII.C*, including tables on:

- Headcount Enrollment by Level (Fall Term)
- Headcount Enrollment by Status and Location (Fall Term)
- Degrees and Certificates Granted by Level (Academic Year)

3) **Faculty**

Data exhibits on CDU faculty are attached as part of *Exhibit VII.C*, including a table on:

- Faculty by Employment Status

4) **Financial Resources (see below)**

Data exhibits on CDU financial resources are attached separately or as part of *Exhibit VII.C*, including:

- Key Financial Ratios (*Exhibit VII.C*)
- Financial audits for the last two years (see *Attachments IV.B.1* and *IV.B.2*)

Key financial ratios and the results of financial audits for the last two fiscal years are discussed above in sections *IV.J* and *IV.B*, respectively.

5) **Inventory of Educational Effectiveness Indicators** (not required)

The inventory of educational effectiveness indicators is not required by WASC for this interim report given its relatively exclusive focus on financial matters.

6) **Concurrent Accreditation and Key Performance Indicators** (not required)

The concurrent accreditation and key performance indicators are not required by WASC for this interim report given its relatively exclusive focus on financial matters.

D. **Most recent audited financial statements** by an independent certified public accountant or, if a public institution, by the appropriate state agency; **management letters**, if any

The results of A-133 and other audited financial statements for the last two fiscal years are attached and discussed in detail above in section *IV.B*.

E. **Organization charts or tables**, both administrative and academic, highlighting any major changes since the last visit

The organization charts of the University are attached as *Exhibit VII.E*, and cover changes in senior positions and personnel (both administrative and academic) since the last WASC site visit in February 2011. Per the requirements of the WASC Commission for this particular interim report, section *IV.A* above provides a detailed description and explanation of changes in financial positions and personnel since the last site visit in February 2011; current job descriptions for finance officers are attached as *Exhibit IV.A*. 
VIII. ADDITIONAL DOCUMENTATION FOR INTERIM REPORTS WITH FINANCIAL ISSUES

The additional documents and attendant analysis required by WASC for this interim report are presented above in other sections, including for CDU’s:

A. Financial statements for the current fiscal year including Budgeted and Actual Year-to-Date and Budgeted and Actual Last Year Totals

   Detailed analyses of budget-to-actual variances for the last fiscal year (FY12) and the current fiscal year (FY13) through January 2013, are provided above in sections IV.C and IV.D, respectively.

B. Projected budgets for the upcoming three fiscal years, including the key assumptions for each set of projections.

   Budget projections for the next three fiscal years (FY14-FY16), including the key assumptions for each set of projections, are provided above in section IV.J.